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MBA (RETAIL MANAGEMENT)

PAPER- 4.5

GROWTH MANAGEMENT

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GROWTH MANAGEMENT

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Self Learning Material

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SYLLABUS

MBA (Retail Management)

4.5: GROWTH MANAGEMENT

Unit 1: Sinews of Growth: Defining Growth and Growth Management- Overview of Growth Management ***'SIX-S'*** Process: Sinews, Strategy, Staging, Synchronizing, Securing and Sustenance- **Sinews**: Identifying Growth Opportunities – Entry Enticements and Barriers- Competition and Cooperation- Creativity and Engagement- Prioritizing Growth- Developing a Growth Proposition and Plan- Building up the Growth sinews: Fine-Ware, Soft-Ware and Hard-Ware- Growth propellers and escalators- Reinventing the Future.

Unit 2: Strategizing Growth- Strategic thrusts for Growth- **Improvement Strategies** (Synergy and Value chain based): Vertical growth, Horizontal growth (related growth and unrelated growth), Evolutionary growth and Continuous growth, Organic growth- **Venture Strategies:** Disruptive Ventures and Innovation Strategies: Revolutionary growth, Discontinuous growth, and Acquired growth- Blue Ocean Strategy- Ansoff's model- McKinsey model- SWOT/TOWS model- 3 Levels of Enterprise Strategies for growth- Porters Generic Competitive Strategies- **Choosing the strategic growth choice**: Considerations of Internal and External Factors.

Unit 3: Staging Growth: Organizing for Growth- Inertia Escape- Activation of growth- Well thought out implementation plan- Competitive compensation programs- Supportive organization culture- Strategic core competencies in place- Frequent, two-way communications- Strategic staffing plan- Efficient decision-making process- Full delegation and accountability- Team based environment- Performance management program- Change management tools in place- Supportive systems and processes- Employee development plans- Succession plan – Warding off Organization from signs of Slowing and Losing- Resources for Growth- Mentor for Growth (M4G)- Getting focus and balance- Monitoring growth.

Unit 4: Synchronizing for Growth: Synchronized Efforts - Directing the Growth Resource mix – Greiner's model of Crises Induced Growth- Managing Growth fatigue: Concept and Overcoming the same- - Managing the momentum of growth: Steady and Speed – Alert and Advancing- High Growth Road Map.

Unit 5 : Securing Growth in every domain: Product & Brand domain, Market & Competition domain, Assets & Capacity domain, Finance & Profitability domain, Networks & Relationship domain, Geography & Spread domain and People & Organizational domain- Handling un-sought consequences of growth- Turning Risks into Opportunities.

Unit 6: Sustaining Growth: Efficiency Improvement- Effectiveness Enhancement- Excellence Management- Continuous Innovation- Kaizen and Radical Innovation- Harnessing Diversity- Rapid Growth Strategies- Managing Rapid Growth- Passion for Growth.

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CONTENTS

UNIT 1 SINEWS OF GROWTH

Structure

1.0 INTRODUCTION

"There are only two kinds of problems in business: growth problems and liquidation problems."

Steve Conover –The Skeptical Optimist

Growth is the key to survival of any business. Businesses that do not grow stagnate an eventually die. In the current era of rapid change growth must be equally rapid or the opportunity will be lost as competitors respond and the zeitgeist changes. Rapid growth is rarely by accident. Companies that grow rapidly have strategies for growth. Companies must learn how to scale up and extend its business, lengthen its expansion phase, and accumulate and apply new knowledge to products and markets faster than competitors. Young companies often fall into the trap of focusing on short term survival and relying on short periods of 'catch up', whereas more mature companies often struggle to identify and successfully grow the key growth elements within their business.

No business can afford to leave their growth to chance, they need a consistent plan that incorporates a vision for growth (market and product combinations) with plans for how they will support expansion by marshalling the know-how, resources and organizational structures at the companies. In essence there are broadly two

strategies for growth: acquisition or organic. However within these broad categories there are a number of different options.

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1.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Define growth and growth management
- Describe the growth management Six S process
- Explain the meaning and concept of growth sinews
- Discuss the building-up of growth sinews
- State the growth propellers and escalators.

1.2 DEFINING GROWTH AND GROWTH MANAGEMENT

Growth means getting incremental new business that provides long-term customer value and delivers better shareholder value over time. The growth of a businessman is quite similar to that of a human being. It is a positive phenomenon. It is gradual. A businessman grows from the very initial stage – the day he starts the business and struggles hard to survive in the market – but slowly and gradually he finds himself in a stable and comfortable position. There are a large number of business firms, cottage industries, etc., which started in a small way and now have been transformed into big organisations, e.g. MDH, Amul Co-operatives, etc.

Growth is not about finding one golden bullet that solves your growth needs for the next 5 years: such opportunities rarely exist. We use a "seed corn" approach that places limited and managed resources behind a number of small ventures. Each of these is developed based on the market opportunity. Initially the financial returns will be small. But delivering a steady stream of managed new ventures allows you to manage your growth year on year.

There are various parameters through which a businessman can come to know whether his business is growing or not. Some of the important measures of growth are as follows:

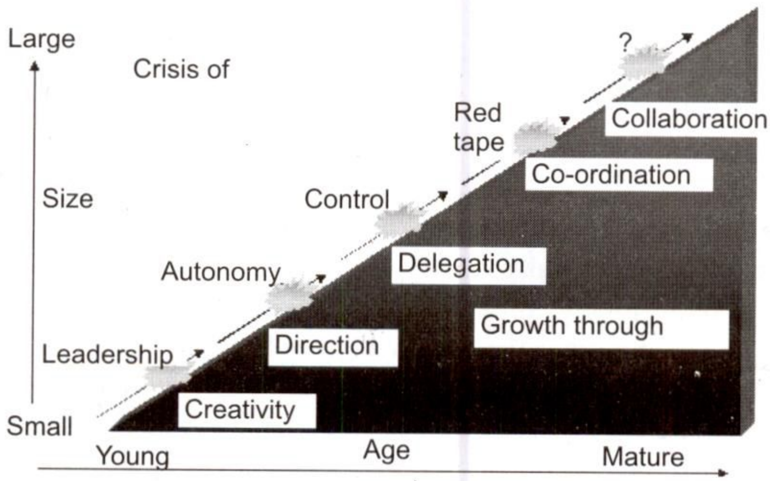
1. An increase in total net worth of the firm i.e. capital + reserves
2. An increase in the size of total business of the firm
3. An increase in the total number of employees
4. An increase in the volume of output
5. An increase in the monthly or yearly sales of the firm

The term **growth management** may be defined as a strategy devised by management to plan the long-term future of the business.

When organizations grow, their structures and processes change. They need new ways of communication and leadership. The extent of these changes is determined by how the organization grows, i.e. by increasing the number of staff or by increasing revenues.

According to Greiner, a growing and maturing organization goes through five stages, each of them is related to particular organizational characteristics and – maybe – to particular problems.

Phases of Growth and Problems



A closer look at those five phases of growth reveals which problems a speeding up of growth can bring. Within every phase and every crisis, the organization has to go through particular processes of learning and change. These processes take time and cannot be reduced to zero.

Phase	Growth through	Crisis of
1	**Creativity**: In this early stage, there are only few people in the company. They know each other well and share their experience, knowledge, and information. All relevant issues are discussed among all people. This is the typical creative start-up culture.	**Leadership**: As the company gets larger, it gets increasingly difficult to do everything in a mutual effort. They have problems to distinguish important from unimportant issues, since there are few or no organizational structures that allow allocating work to certain persons. The company needs a strong leader who holds the team together and establishes appropriate systems and structures.

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2	**Direction**: Now the company is able to direct certain issues and tasks to certain people. Normally, directives and control are highly centralized at this stage.	**Autonomy**: If the company continues to grow, this leads to an extremely high workload for the manager or the management team. They have to handle nearly everything in the company. They are responsible for assigning tasks, controlling results, acquiring work, solving problems, motivating people, etc. As the company reaches a certain size, management will not be able to continue this way. They have to give up some of their autonomy and to share some tasks.
3	**Delegation**: Management delegates some tasks, functions and authorities to other people in the company. Departments emerge and develop their own dynamics.	**Control**: If management now fails to control the activities of these departments, they would start to handle tasks more from their own view than with the whole business in mind. At its extreme, departments would work against each other.
4	**Coordination**: Projects and tasks are coordinated between all parts and departments of the company so that they are well in tune with each other.	**Red Tape**: This coordination can lead to a high level of bureaucracy. Fine-tuning requires high efforts that make it difficult for the company to adapt to changes in the external environment.
5	**Collaboration**: The co-operation between all parts of the company is so well organized that they really can work together effectively in whatever situation.	**?** Nevertheless, doing business is never easy and the next crisis is waiting for sure.

Each of these phases of growth, evolution and revolution is marked by particular experiences of the members of the organization. In the beginning of each phase, all processes work smoothly than, the organization develops on. The once perfect processes and structures become inadequate – until the situation becomes unacceptable for management and/or staff. (Very few businesses initiate change processes *before* they reach a really unacceptable situation.) In such a situation of crisis, it is time for change. These changes have to be implemented, controlled, and modified in order to achieve a new fit between organizational needs and its structures and processes.

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That means, however, that all members of the organization have to go through these phases of learning and development. A corporation that started the year with 10 people and that has 250 people at the end of the year has to go through three to four phases within twelve months. It is questionable, if really all processes, structures and skills (including leadership skills and mindset of the management team) can keep up with that speed.

Due to the several crises of growth, the implications of extreme growth on costs are enormous. The company moves from one crisis to the next - and the word 'crisis' stands for 'inefficiency' too. Many once ambiguous Internet-start-ups who suffer from extreme costs are evidence for this.

1.3 OVERVIEW OF GROWTH MANAGEMENT SIX-S PROCESS

The given below is the brief description of Six-S of growth management:

1. Sinews

In general-terms the sinews may be defined as a piece of tough fibrous tissue uniting muscle-to-bone or bone-to-bone; a tendon or ligament. From this definition we can say that the growth sinews include the key factors that connect the overall growth of the business. Men, material and money are the sinews of business, but the most important of these is men. "Businesses up and down the country are busting a gut to find new growth opportunities, both at home and around the world. To borrow a phrase from a politician, businesses are already 'straining every sinew' to deliver growth. And many companies, both large and small, think that government could do more."

Step 1

Know when to grow: According to the Maryland Small Business Development Center's Carey Wilson, planning for business growth involves "a constant reassessment of all operational aspects of the business." You can only grow your business when indicators, such as market demographics, financial stability and product or service success, show that you are ready, he says; but the indicators won't be the same for all industries.

Step 2

Plan for growth: It's important to know what you want to achieve with your business, says business consultant Emma Wimhurst, author of "Boom: Seven Disciplines to Control, Grow and Add Impact to Your Business". You should be able to state your goal in less than 50 words, she says. Although your formal business plan should include details like market research, capitalization and staffing issues, your goals

should be clear. The plan should also contain a contingency in case things don't go as expected. "You also need to know when to cut your losses and move on," Wasmund says.

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Step 3

Finance growth: According to Wasmund, If you don't learn to manage cash flow well, you risk destroying your business. The U.S. Small Business Administration notes that financing growth can come from raising equity capital from investors, but the primary source of capital for small businesses still comes from lenders, such as banks, credit unions and savings and loans. Wasmund says that it is more important than ever for start-up businesses to work on developing a good relationship with their bank manager.

Step 4

Delegate: Many entrepreneurs think they can handle growth by themselves, but that's a mistake says Wasmund. "Force yourself to delegate, invest in quality people that you can trust and put stringent reporting in place so you've always got a finger on the pulse," she says. Margaret Heffernan, an entrepreneur-in-residence at the University of Bath in England, suggests hiring is based on attitude rather than skills and then making sure that all your employees know the values of the company.

Step 5

Analyze your growth: It's important to know whether your business' growth is because of something that you're doing right or if you're simply being lifted by a rising market, says Heffernan. Growth can hide potential problems as well; for instance, you may currently lack competitors, have an inferior product that is benefiting from a great sales team or you may be relying too much on a single buyer. As with a neglected child, you ignore the growth of your business at your peril.

2. Strategy

A strategy is a well-planned course of action designed to achieve a specific objective. A growth strategy is a strategic plan meant to expand the operations of a business firm. A strategy which a firm may adopt will depend upon the fact whether the businessman wants to develop internally or externally.

The best business growth strategy for your company may not be the same as your competitors. You may need to take a completely different approach than competitors in your industry in order to grow your business. Market research and forecasting ahead on ways to meet clients' needs before business strategy planning is essential, if you expect profitable growth.

The best competitive business strategy is the one that will allow your company to experience solid growth. Trying to compete in an area in which your competitors are likely to eventually overtake you is a poor business growth strategy in the long

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run. Either you'll need to sell more of the products you currently have by opening new stores or branch out into capturing new markets by offering different items. These new products shouldn't be goods that your competitors could simply start carrying, but rather angle them to fit your company's unique selling proposition (USP).

For instance, shoe stores sell the same product, yet often have very different USPs, target customers and marketing angles. A luxury footwear store chain carries expensive brands. These stores are likely to have high end furnishings with the shoes elegantly displayed. Attentive clerks typically assist customers.

Following are the main strategies which are usually followed by the businessmen for the growth of their enterprise.

(a) *Internal Growth Strategies:* Internal growth strategy can be sub-divided into:

1. Expansion
2. Diversification

(b) *External Growth Strategies:* External growth strategy can be sub-divided into:

1. Joint ventures
2. Mergers

(a) Internal Growth Strategies

Internal growth implies that the business firm expands its business without seeking help from other firms. Involvement of other firms is absent. The business firm grows from within. It is also called aggregative growth strategy.

A firm may grow internally through:

(i) Expansion

(ii) Diversification

Let's discuss these ways of growth one by one.

(i) Expansion

A businessman may start looking for opportunities for expansion as his business concern starts moving forward. Expansion is one way of internal growth. A firm may expand by increasing the sales, exploring new markets, developing new products and the like. It may plough back its profits for expansion or it may take loans or advances from financial institutions to increase its production capacity. The business unit will always retain its original character when it expands from within. Expansion may take the following forms:

1. Market Penetration
2. Market Development
3. Product Development

(ii) Diversification

By now, we all know that growth is natural and gradual. A businessman in order to grow may increase the sale of existing products and may explore new markets

for existing products or modify his products. These efforts will lead him to better utilisation of existing resources and more of profits. After some more time, he may reach a point where it is no longer possible to expand in the present product market. A better option for him would be to add new products or markets. This method of growth is known as **diversification**.

Diversification is nothing but trying new areas and new products, i.e., entering new fields of business. For example, a tea manufacturer may diversify by entering sugar industry, or hotel industry.

(b) External Growth Strategies

A business unit can grow by joining hands with another business firm. This is how a businessman grows externally. It is also called as *integrative* growth strategy.

A firm may grow externally through:

(i) Joint Ventures

(ii) Mergers

These external growth strategies are detailed below:

(i) Joint ventures

Joint venture is another form of partnership between two business units. Here, two or more independent business firms join hands by contributing to total equity capital and by participating in the business operations together. It is usually for a specific purpose. It may also be called as temporary partnership meant for a limited purpose.

(ii) Mergers

Merger is another type of growth strategy. Integration/Combining of two or more firms into one is known as merger. It may be through take-over of one company by another or by creating a new company by full consolidation of two or more separate companies.

There may be a combining or merging of two or more firms engaged in the same production (e.g. Brooke Bond and Lipton merged together and formed a new company known as "Brooke Bond Lipton India Limited") or there may be a combination where combining units are complementary to each other.

3. Staging

Staging growth means getting armed with resources and inputs for enacting a growth-scene upon the stage. Traditionally we have a life cycle phases or stages presented as, Inception, Growth, Maturity and Decline. But 'staging' of Growth Management per-se does not refer to these life cycle stages. It refers to getting started to place growth upon the 'stage', that is the 'institutional platform' or 'organizational podium' or 'business paradigm or model'.

Growth needs sourcing & stocking with requisite inputs and resources ready for placing on the stage and activation & monitoring of implementation, so that the staged inputs and resources via a process start giving intended results or performance.

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(i) Sourcing & stocking: The requisite resources have been sourced & stocked. The kind of resources needed depends on the kind of growth strategy needed and chosen. Organic, continuous, evolutionary and related growth needs moderate physical and more emotional inputs and less finance and intellectual resources. Proportion of internally sourced competences and cultures is more than the outsourced ones. The acquired, discontinuous, revolutionary and unrelated growth needs more finance and intellectual resources than physical and emotional resources as such. Here the outsourcing is the thrust. More finance and intellectual capital are needed. The vertical and horizontal growth needs moderate levels of all resources. Chart 1 presents the needs accompanying different growth options.

Chart 1 : Growth Type, Growth Possibilities and Matching Resource Types

Finance capital			
Physical capital			
Intellectual capital			
Emotional capital			
Type of Growth	Organic & Continuous Growth	Vertical & Horizontal Growth	Discontinuous & Revolutionary Growth
Growth Possibilities	Less	Moderate	Great

Once the requisites are known, sourcing and stocking oneself with the requisites are easier. And this is the next task. Acquiring physical resources or finances is no problem, because finance is not a scarce resource today and physical resources can be acquired given finance. Now there is ample scope for global sourcing as well. But up-scaling an institution's intellectual capital and emotional resources could take long time to build-up. Hence, institutions from day one should get themselves committed to this cause so that the long gestation time consumed in building up these resources is taken care of.

(ii) Activation and Monitoring: Activation is the doing or making or moving phase. This is initiation into the action phase. Confident and committed engagement with the environment, both internal and external, gives a strong initiation. A strong motivation, a firm resolve to give the best, an unfailing attitude to recognize unique contributions and an ever pleasant kindness to share the gains equitably will make even the impossible just possible. A good start itself is a great booster of performance.

Monitoring is ensuring that (as we do or make or move) the direction of our move is towards the goal set. This ensures a coherent action on the part of all, continuous

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involvement of all and committed progression by all. Group dynamics, simultaneous loose-tight properties, orientation towards the super-ordinate goal, firmness in not giving up in the middle, sacrifices that emanate from the top, crediting those responsible for critical contributions, etc are some proven tools of effective activation and monitoring. Periodical assessment sessions on ways to improve performance are better taken up. Apart stock-taking, monitoring sessions must include some kind of day-dreaming exercises as well so that seemingly wild, but could be better ideas are encouraged to freely come about. Monitoring is not only for evaluation, but more importantly for rekindling and coming with refreshing ideas.

4. Synchronizing

As your business grows you may dive into various business activities and ventures and this calls for a single minded effort from all your employees and allies. All resources must function like a well oiled machine and at no time lose focus or coordination. This calls for regular feedback and update mechanism among these resources and allies to keep the business on the growth track. Your outsourcing vendor in such growth periods must extend his support by synchronizing the services to keep up the pace.

Catering similar industry as yours helps

If the outsourcing vendor is vastly catering to an industry, similar to yours, it indirectly means that the vendor is handling the industry requirements well and has got a deep expertise for catering to the industry's diverse needs. So, look for the vendor's client list to ascertain this.

Anticipation and accommodation

Is the vendor curious to understand your business and anticipates the services needed? If you sense this when negotiating with a vendor, you may be talking to the right vendor. Anticipation to changes and readiness for accommodating the changes with a big smile is the hallmark of a truly supportive vendor, and you certainly deserve one.

Service synchronization at a heavy premium is a let down

Basic services are commonly available but customized services like flexibility, adjusting and synchronizing to varied business needs are not so common, however part of most vendor's service list. Though there will be a small premium for these value added services; ensure that the vendor is not burning your pockets. So before choosing your vendor, verify the cost differences across vendors and make the right decision.

5. Securing Growth

In order to achieve sustained business growth companies must look to their hidden assets: customers, brands, product know-how, channel position, knowledge

management, external networks and the value chain; to unleash their growth potential.

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Value chain and business model

Every so often a company comes up with a new approach that completely transforms the way an industry is perceived. Or a company might identify a specific part of an industry's value chain and leverage and expand it until it becomes an industry of its own. Finally, sometimes a company discovers that it has a hidden jewel in its value chain – one that can lead it into a new business direction and growth.

Customer base

By expanding customer bases, companies might find that they are appealing to newer, more profitable customers. By creating new customer segmentations it may be able to serve traditional existing customers with some of its product offerings, whilst at the same time capture a foothold among new high-income customers. The ability to cross sell and up sell products and services, whether it is new or existing has alluded many companies and has hampered their path to growth.

Service

Providing service at the right points in the customer experience cycle can win significant loyalty from customers and clear new paths to growth.

Partnership and risk sharing

The best growth oriented companies' focus on their particular strengths and bring in business partners to fill in the gaps.

Distribution channels

By sticking too long with legacy distribution channels has hampered growth for many companies. By going direct to consumers, switching from agents or representative sales channels can either create a threat to existing channels, or bring new renewed growth to companies.

Brands

Leveraging brands into cult status into selected target markets and segments can change industries, bring about new competitors, globalisation or any of the other growth options. However, brands are fueled by marketing and supported by distribution. The right combination can bring about new growth markets and new growth products that will bring about growth in revenue.

Convenience and Customisation

Breakthroughs in convenience and customisation can also propel growth. The Internet is one of the latest influencers that have brought about change in retail industries and financial industries. It removes inconvenience for customers and can be used as a tool to customise products and services that could lead to growth.

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Geographic Reach

With globalisation the risk of expansion into new markets has become relatively low, but so are the rewards. The best time to pull the geographic reach growth model is when a company can claim first mover advantage.

Technology

The final growth lever is technology. Technology's role in transforming business processes – and entire industries – cannot be underestimated.

In closing, there are almost an infinite number of people and organisational considerations that must be addressed to realise the benefits of a successful growth strategy. A well thought out, thorough, integrated approach to organising for growth is worth much more than the sum of its parts. Equally important to a successful growth strategy are the business processes that support and enable it. The goal of any growth strategy is to build capabilities, competencies and processes within a company that can produce growth that is defensible against competition and will be sustainable over time. Strong, profitable, sustained business growth is possible in any industry, in any region, at any time – growth is not dependent on outside factors, but on the internal actions a company takes.

6. Sustenance

Fast growth in business is exciting, but sustaining that growth and weathering the storms along the way is an ongoing process. A business that grows too quickly can run into difficulties. A business that grows too slowly, or not at all, can fail. A business

Check Your Progress

1. Define growth.
2. What are the key business sinews?
3. What do you mean by strategy?

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that fails to plan for surviving the tough times can find the road a very challenging one. Ensuring growth is sustainable relies on a number of important elements that need to be managed effectively. Businesses that succeed in sustaining their growth over time are those that plan effectively and follow a set of common elements, typically covering four key areas. We call this the 'Four Cornerstones of Sustained Growth'. These four cornerstones are:

Aspirational

To grow your business you need a desire to grow. Accidental growth is unstructured, suffers from poor leadership and is ultimately unsustainable. The key element is ambition, the spirit of enterprise. Any business with ambitions to grow is dominated by individuals, many with their own competing agendas. Ambitions need to be communicated, interpreted, reconciled and converted into organised action plans, if different sets of aspirations are to be realised.

Organisational

Businesses must be open to change as they grow. Many of these changes, including the way you recruit, manage and reward your people, can be anticipated and planned for using purpose-designed systems that can tell you what's going on in the business, but not squeeze the life out of it. Such an approach is vital to the development of a business because it ensures top management pays attention to the right things at the right time.

Financial

Long-term financial strength is driven by cash flow. To initiate and sustain growth you need to know how much cash you require and when. Understanding how your business consumes and generates cash, the precise mechanics of your working capital and its relationship to external funding requirements (via the maximum rate of growth you can finance from existing resources) is critical. Knowing your relative financial strength compared to that of your main competitors is also important.

Market

All businesses have a tendency to look inwards rather than outwards. Changing market forces can present challenges to growth. Your chances of survival rest strongly on how well you understand your current market situation, the impact of your products and services and the benefits they deliver to the customers. Your ability to predict how your presence in the marketplace will change as the business grows, and how this impacts strategy and tactics, also determines successful growth. Many of today's BRW (Business Review Weekly) Fast 100 has survived challenging markets at some point in their growth journey. With conditions set to remain as unpredictable as ever, we have developed some tips for surviving the unanticipated.

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Case Study: Nestle's Growth Strategy

Nestle is one of the oldest of all multinational businesses. The company was founded in Switzerland in 1866, by Heinrich Nestle, who established Nestle to distribute "milk food," a type of infant food he had invented that was made from powdered milk, baked food, and sugar. From its very early days, the company looked to other countries for growth opportunities, establishing its first foreign offices in London in 1868. In 1905, the company merged with the Anglo-Swiss Condensed Milk, thereby broadening the company's product line to include both condensed milk and infant formulas. Forced by Switzerland's small size to look outside' its borders for growth opportunities, Nestle established condensed milk and infant food processing plants in the United States and Britain in the late 19th century and in Australia, South America, Africa, and Asia in the first three decades of the 20th century. In 1929, Nestle moved into the chocolate business when it acquired a Swiss chocolate maker. This was followed in 1938 by the development of Nestle's most revolutionary product, Nescafe, the world's first soluble coffee drink. After World War II, Nestle continued to expand into other areas of the food business, primarily through a series of acquisitions that included Maggi (1947), Cross & Blackwell (1960), Findus (1962), Libby's (1970), Stouffer's (1973), Carnation (1985), Rowntree (1988), and Perrier (1992). By the late 1990s, Nestle had 500 factories in 76 countries and sold its products in a staggering 193 nations-almost every country in the world. In 1998, the company generated sales of close to SWF 72 billion ($51 billion), only 1 per cent of which occurred in its home country. Similarly, only 3 per cent of its 210,000 employees were located in Switzerland. Nestle was the world's biggest maker of infant formula, powdered milk, chocolates, instant coffee, soups, and mineral waters. It was number two in ice cream, breakfast cereals, and pet food. Roughly 38 per cent of its food sales were made in Europe, 32 per cent in America, and 20 per cent in Africa and Asia.

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Management Structure

Nestlé is a decentralized organization. Responsibility for operating decisions is pushed down to local units, which typically enjoy a high degree of autonomy with regard to decisions involving pricing, distribution, marketing, human resources, and so on. At the same time, the company is organized into seven worldwide strategic business units (SBUs) that have responsibility for high-level strategic decisions and business development. For example, a strategic business unit focuses on coffee and beverages. Another one focuses on confectionery and ice cream. These SBUs engage in overall strategy development, including acquisitions and market entry strategy. In recent years, two-thirds of Nestlé's growth has come from acquisitions, so this is a critical function. Running in parallel to this structure is a regional organization that divides the world into five major geographical zones, such as Europe, North America and Asia. The regional organizations assist in the overall strategy development process and are responsible for developing regional strategies (an example would be Nestlé's strategy in the Middle East, which was discussed earlier). Neither the SBU nor the regional managers, however, get involved in local operating or strategic decisions on anything other than an exceptional basis.

Although Nestlé makes intensive use of local managers to knit its diverse worldwide operations together, the company relies on its "expatriate army." This consists of about 700 managers who spend the bulk of their careers on foreign assignments, moving from one country to the next. Selected primarily on the basis of their ability, drive and willingness to live a quasi-nomadic lifestyle, these individuals often work in half-a-dozen nations during their careers. Nestlé also uses management development programs as a strategic tool for creating an esprit de corps among managers. At Rive-Reine, the company's international training center in Switzerland, the company brings together, managers from around the world, at different stages in their careers, for specially targetted development programs of two to three weeks' duration. The objective of these programs is to give the managers a better understanding of Nestlé's culture and strategy, and to give them access to the company's top management.

The research and development operation has a special place within Nestlé, which is not surprising for a company that was established to commercialize innovative foodstuffs. The R&D function comprises 18 different groups that operate in 11 countries throughout the world. Nestlé spends approximately 1 per cent of its annual sales revenue on R&D and has 3,100 employees dedicated to the function. Around 70 per cent of the R&D budget is spent on development initiatives. These initiatives focus on developing products and processes that fulfill market needs, as identified by the SBUs, in concert with regional and local managers. For example, Nestle's instant noodle products were originally developed by the R&D group in response to the perceived needs of local

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operating companies through the Asian region. The company also has longer-term development projects that focus on developing new technological platforms, such as non-animal protein sources or agricultural biotechnology products.

A Growth Strategy for the 21st Century

Despite its undisputed success, Nestlé realized by the early 1990s, that it faced significant challenges in maintaining its growth rate. The large Western European and North American markets were mature. In several countries, population growth had stagnated and in some, there had been a small decline in food consumption. The retail environment in many Western nations had become increasingly challenging and the balance of power was shifting away from the large-scale manufacturers of branded foods and beverages, and toward nationwide supermarket and discount chains. Increasingly, retailers found themselves in the unfamiliar position of playing off against each other – manufacturers of branded food, thus bargaining down prices. Particularly in Europe, this trend was enhanced by the successful introduction of private-label brands by several of Europe's leading supermarket chains. The results included increased price competition in several key segments of the food and beverage market, such as cereals, coffee and soft drinks.

At Nestlé, one response has been to look toward emerging markets in Eastern Europe, Asia and Latin America for growth possibilities. The logic is simple and obvious – a combination of economic and population growth, when coupled with the widespread adoption of market-oriented economic policies by the governments of many developing nations, makes for attractive business opportunities. Many of these countries are still relatively poor, but their economies are growing rapidly. For example, if current economic growth forecasts occur, by 2010, there will be 700 million people in China and India that have income levels approaching those of Spain in the mid-1990s. As income levels rise, it is increasingly likely that consumers in these nations will start to substitute branded food products for basic foodstuffs, creating a large market opportunity for companies such as Nestlé.

In general, the company's strategy had been to enter emerging markets early – before competitors – and build a substantial position by selling basic food items that appeal to the local population base, such as infant formula, condensed milk, noodles and tofu. By narrowing its initial market focus to just a handful of strategic brands, Nestlé claims it can simplify life, reduce risk, and concentrate its marketing resources and managerial effort on a limited number of key niches. The goal is to build a commanding market position in each of these niches. By pursuing such a strategy, Nestlé has taken as much as 85 per cent of the market for instant coffee in Mexico, 66 per cent of the market for powdered milk in the

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Philippines, and 70 per cent of the market for soups in Chile. As income levels rise, the company progressively moves out from these niches, introducing more upscale items, such as mineral water, chocolate, cookies, and prepared foodstuffs.

Although the company is known worldwide for several key brands, such as Nescafe, it uses local brands in many markets. The company owns 8,500 brands, but only 750 of them are registered in more than one country, and only 80 are registered in more than 10 countries. While the company will use the same "global brands" in multiple developed markets, in the developing world it focuses on trying to optimize ingredients and processing technology to local conditions and then using a brand name that resonates locally. Customization rather than globalization is the key to the company's strategy in emerging markets.

Executing the Strategy

Successful execution of the strategy for developing markets require a degree of flexibility, an ability to adapt in often unforeseen ways to local conditions, and a long-term perspective that puts building a sustainable business before short-term profitability. In Nigeria, for example, a crumbling road system, aging trucks, and the danger of violence forced the company to rethink its traditional distribution methods, instead of operating a central warehouse, in most of the nations. For safety reasons, trucks carrying Nestlé goods are allowed to travel only during the day and frequently under-armed guard. Marketing also poses challenges in Nigeria. With little opportunity for typical Western-style advertising on television of billboards, the company hired local singers to go to towns and villages offering a mix of entertainment and product demonstrations.

China provides another interesting example of local adaptation and long-term focus. After 13 years of talks, Nestlé was formally invited into China in 1987, by the Government of Heilongjiang province. Nestlé opened a plant to produce powdered milk and infant formula there in 1990, but quickly realized that the local rail and road infrastructure was inadequate and inhibited the collection of milk and delivery of finished products. Rather than make do with the local infrastructure, Nestlé embarked on an ambitious plan to establish its own distribution network, known as milk roads, between 27 villages in the region and factory collection points, called chilling centres. Farmers brought their milk – often on bicycles or carts – to the centres where it was weighed and analysed. Unlike the government, Nestlé paid the farmers promptly. Suddenly the farmers had an incentive to produce milk and many bought a second cow, increasing the cow population in the district by 3,000 to 9,000 in 18 months. Area managers then organized a delivery system that used dedicated vans to deliver the milk to Nestlé's factory.

Although at first glance this might seem to be a very costly solution, Nestlé calculated that the long-term benefits would be substantial. Nestlé's strategy is

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similar to that undertaken by many European and American companies during the first waves of industrialization in those countries. Companies often had to invest in infrastructure that we now take for granted to get production off the ground. Once the infrastructure was in place, in China, Nestlé's production took off. In 1990, 316 tons of powdered milk and infant formula were produced. By 1994, output exceeded 10,000 tons and the company decided to triple capacity. Based on this experience, Nestlé decided to build another two powdered milk factories in China and was aiming to generate sales of $700 million by 2000.

Nestlé is pursuing a similar long-term bet in the Middle East, an area in which most multinational food companies have little presence. Collectively, the Middle East accounts for only about 2 per cent of Nestlé's worldwide sales and the individual markets are very small. However, Nestlé's long-term strategy is based on the assumption that regional conflicts will subside and intra-regional trade will expand as trade barriers between countries in the region come down. Once that happens, Nestlé's factories in the Middle East should be able to sell throughout the region, thereby realizing scale economies. In anticipation of this development, Nestlé has established a network of factories in five countries, in the hope that each will, someday, supply the entire region with different products. The company, currently makes ice cream in Dubai, soups and cereals in Saudi Arabia, yogurt and bouillon in Egypt, chocolate in Turkey, and ketchup and instant noodles in Syria. For the present, Nestlé can survive in these markets by using local materials and focusing on local demand. The Syrian factory, for example, relies on products that use tomatoes, a major local agricultural product. Syria also produces wheat, which is the main ingredient in instant noodles. Even if trade barriers don't come down soon, Nestlé has indicated it will remain committed to the region. By using local inputs and focussing on local consumer needs, it has earned a good rate of return in the region, even though the individual markets are small.

Despite its successes in places such as China and parts of the Middle East, not all of Nestlé's moves have worked out so well. Like several other Western companies, Nestlé has had its problems in Japan, where a failure to adapt its coffee brand to local conditions meant the loss of a significant market opportunity to another Western company, Coca Cola. For years, Nestlé's instant coffee brand was the dominant coffee product in Japan. In the 1960s, cold canned coffee (which can be purchased from soda vending machines) started to gain a following in Japan. Nestlé dismissed the product as just a coffee-flavoured drink rather than the real thing and declined to enter the market. Nestlé's local partner at the time, Kirin Beer, was so incensed at Nestlé's refusal to enter the canned coffee market that it broke off its relationship with the company. In contrast, Coca Cola entered the market with Georgia, a product developed specifically for this segment of the Japanese market. By leveraging its existing distribution channel, Coca Cola

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captured a 40 per cent share of the $4 billion a year, market for canned coffee in Japan. Nestlé, which failed to enter the market until the 1980s, has only a 4 per cent share.

While Nestlé has built businesses from the ground up, in many emerging markets, such as Nigeria and China, in others it will purchase local companies if suitable candidates can be found. The company pursued such a strategy in Poland, which it entered in 1994, by purchasing Goplana, the country's second largest chocolate manufacturer. With the collapse of communism and the opening of the Polish market, income levels in Poland have started to rise and so has chocolate consumption. Once a scarce item, the market grew by 8 per cent a year, throughout the 1990s. To take advantage of this opportunity, Nestlé has pursued a strategy of evolution, rather than revolution. It has kept the top management of the company staffed with locals – as it does in most of its operations around the world – and carefully adjusted Goplana's product line to better match local opportunities. At the same time, it has pumped money into Goplana's marketing, which has enabled the unit to gain share from several other chocolate makers in the country. Still, competition in the market is intense. Eight companies, including several foreign-owned enterprises, such as the market leader, Wedel, which is owned by PepsiCo, are vying for market share, and this has depressed prices and profit margins, despite the healthy volume growth.

Discussions

1. Does it make sense for Nestle to focus its growth efforts on emerging markets? Why?
2. What is the company's strategy with regard to business development in emerging markets? Does this strategy make sense? From an organizational perspective, what is required for this strategy to work effectively?
3. Through your own research on NESTLE, identify appropriate performance indicators. Once you have gathered relevant data on these, undertake a performance analysis of the company over the last five years. What does the analysis tell you about the success or otherwise of the strategy adopted by the company?
4. How would you describe Nestle's strategic posture at the corporate level; is it pursuing a global strategy, a multidomestic strategy an international strategy or a transnational strategy?
5. Does this overall strategic posture make sense given to the markets and countries that Nestle participates in? Why?
6. Is Nestle's management structure and philosophy aligned with its overall strategic posture?

Source: *Scribd.com*

1.4 SINEWS

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Growth is the result of exploring opportunities. Firms are a collection of a certain number of resources that provide the means to successfully take advantage of those opportunities and grow (Barney, 1986, 1991; Penrose, 1959). There is no limit to the growth of the firms; it is the rate of growth what is limited in the short run but there is no limit to the size of the firm (Penrose, 1959). The idea introduced by Penrose in 1959, says that there is no limit for the size of the firm and unlimited growth is possible raised question of the relationship between firm size and growth. A negative relationship between growth and size, that is, a lower rate of growth for larger firms than for small firms, would put in doubt the hypothesis of unlimited growth. If this were the case, the larger the firm would become, the smaller would be the rate of growth until it got to a point at which the large firm could not increase its size any more.

1.4.1 Identifying Growth Opportunities

The demand for growth is endless. This puts great pressure on executives not only to find growth opportunities, but to choose the best growth opportunities available at the moment. Many companies experience rapid growth at some stage of their life cycle. For some, this may happen soon after they are launched. Others have multiple spurts, followed by a leveling-off period or even a decline. A consistent characteristic of the growth stage is that demands exceed existing resources. Consequently, business owners must be creative in acquiring and managing the resources needed to seize growth opportunities.

Successful entrepreneurs are astute at, first, identifying opportunities and, second, taking action to pursue those opportunities. The idea behind starting a business may have been spontaneous. It may come from prior experience or personal preference. It may have resulted from loss of employment. Although bankers, investors, and educators often emphasize the need for planning in advance of opening an enterprise, the evidence is that most venture creators did not prepare a business plan before they started. For a small or medium-size enterprise (SME) that has been operating for some time, however, a planning process is essential to any assessment of whether to take up a growth opportunity.

Opportunity recognition is at the core of an entrepreneurial venture. The founder of a company with growth potential will identify and seek to satisfy unmet customer needs. Creativity, new technologies, and new marketing approaches are all characteristics of growing enterprises. A key word in this stage is *flexibility*. The leaders of the company are finding new markets, sometimes on the international scene. Growth may come not only from sales of products and services, but also through acquisition. The growing firm gains recognition for its brand name and builds customer loyalty. Robert Ronstadt coined the term "corridor principle" to explain how small and medium business owners identify opportunities that a

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prospective entrepreneur does not recognize. At the time an individual opens his or her first enterprise, it is as if the budding entrepreneur is inside a room consisting of his or her life experiences and observations. Starting business is the equivalent of opening a door, stepping out, and discovering a corridor. Up and down the corridor are other doors, each representing a new opportunity. If the first door—i.e., starting the business—is not opened, none of the other doors will be seen. Launching the business allows the owner to enter new networks, obtain access to information, and otherwise make discoveries that would never have happened without going into business.

From the strategic management literature, we learn about "environmental scanning" as a technique for being alert to new events, trends, and changes that may result from legislation and regulation, competitor initiatives and reactions, customer tastes, technological developments, and many other occurrences. Some business executives look at environmental disruptions as threats, but those disruptions are invariably viewed as opportunities for entrepreneurial small and medium business owners. Rita McGrath and Ian MacMillan proposed formalizing the scanning procedure by devising a register in which opportunities could be categorized as one or other of the following:

- redesign of products or services
- redifferentiation of products or services
- resegmenting of the market
- reconfiguring of the market
- development of breakthrough competencies

Market Engineering can help identify and rank those opportunities.

10 Ways Market Engineering Can Help You to Identify Growth Opportunities

1. Market Engineering measurements identify trends that create market opportunities.
2. Customer needs are measured identifying future new product demand.
3. Competitive Engineering identifies areas in which competitors' actions can be replicated for increased growth.
4. Market Engineering helps prioritize and rank growth opportunities to optimize future growth.
5. Market segmentation strategy identifies niche markets, geographic areas, new customer applications, and the like that can be targeted for growth.
6. Customer demographic measurements identify the true future potential of markets.
7. Interviews with the competitors, customers and dissatisfied customers indicate areas for improvement and growth.

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8. Customer engineering measurements drive improvements in sales force and distribution strategy utilization to gain more growth through existing customers.
9. Competitive measurements and profiles identify companies that could be acquired.
10. Competitive analysis identifies poorly served customer segments that can be exploited for growth.

Checklist to Optimize Search for Growth Ideas

- In-depth competitor analysis and benchmarking
- Focus of group on customers' needs
- Survey of competition's customers
- Survey of dissatisfied customers
- Creation of market-based acquisition strategy
- Market analysis on related markets
- Customer segmentation analysis
- Distribution analysis of competition
- Customer demographic analysis
- Replacement rate analysis and strategy
- Price/performance ratio analysis on all products
- Marketing tool efficiency analysis
- Sales force structuring and territory analysis
- Market analysis on technical trends and emerging technologies.

1.4.2 Entry Enticement and Barriers

Long-term business success involves creating, managing and exploiting assets and skills that competitors find difficult to match or counter. Developing this advantage is a continuing process, not a fixed event. Here are ten tips to help you develop competitive advantage and build barriers to entry.

1. **Exercise Strategic Leadership:** The top management team leading your company must develop a vision for the organization; obtain employee commitment to achieve that vision; and build effective relationships with key stakeholders (e.g., partners, customers and suppliers). At the same time, management must be a catalyst for change. A good top management team has varied expertise and knowledge. Most importantly, top managers must learn to think in a nonlinear manner, in order to develop successful strategies when faced with new – and possibly contradictory – information.

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2. **Leverage Core Competencies:** One key to sustaining a competitive advantage is to develop a core set of competencies that customers want and that are difficult for others to imitate. These competencies can be exploited and leveraged to develop new products or to go after new markets. The ability to leverage core competencies across geographic and product business units helps firms to achieve economies of scale and scope.
3. **Know Your Marketplace:** Provide employees with strong information and decision-support systems that enable them to develop strategies in response to market conditions. Your organization must have superior knowledge and understanding of your competitors, your customers and your customers' perceptions of your products and/or services. Defining and measuring criteria, and then interpreting and communicating results, is crucial to the process.
4. **Develop Customer Loyalty:** Every business seeks satisfied customers who return again and again because they trust a company's product or service. Their repeat business comes at a much lower cost to you than that of a customer who must be constantly enticed to continue buying. In addition to working on core product and service attributes to build customer loyalty (such as treating each customer as a valued individual), businesses must work on such issues as instilling a helpful staff attitude, delivering on advertising promises, developing a favorable return policy and providing accurate product information.
5. **Innovate Strategically:** Whether you are a first or late mover, innovation creates sustainable advantage. The pioneering company plays a central role in defining both the concept and buyer preferences for a category. But if the originator doesn't understand the market, a late mover can identify a superior but overlooked product position and undercut the pioneer. The key is innovation based on the market's needs.
6. **Engage in Growth Strategies:** Identify opportunities such as geographic expansion or new target markets that will enable your company to grow. Enter those markets using the most effective method (e.g., strategic alliance, outsourcing, direct). Where risks are high and/or adequate internal resources are unavailable, search for a partner who can join in developing a cooperative venture. Select partners with complementary resources and appropriate strategic intent.
7. **Attract and Retain Human Capital:** Companies must start by investing appropriately to recruit and select top-quality employees. Then they must invest in training and development to continuously build employee skills and develop a corporate culture that promotes loyalty, commitment and cohesion. Finally, employees must be rewarded for skill development.
8. **Make Effective Use of New Technology:** Identify the newest and most effective technology relevant to your business (e.g., information technology,

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manufacturing technology). Make a commitment and allocate the resources to have the newest and best technology – and employees with the skills to use it.

9. **Protect Intellectual Property:** Products, technologies, business methods, patents, trademarks, copyrights and other forms of intellectual property can significantly enhance a company's ability to secure and defend sources of marketplace advantage, even in times of rapid technological change. Intellectual property is a means of creating a proprietary, defensible market advantage.
10. **Stay Flexible:** Sustaining competitive advantage requires a continuous rethinking of current strategic actions, organization structure, communication systems, corporate culture, asset deployment and investment strategies. In short, every aspect of a firm's operations must be examined frequently in order to maximize their long-term health. Strategic flexibility gives any firm the ability to respond quickly to changing conditions and thereby develop and/or maintain a significant competitive advantage.

1.4.3 Competition and Cooperation

Competition may be defined as an object centered process in business performance. Competition may be semantically described as a combination of two distinct Latin words- com (together) and petere (to seek). Similarly conflict is derived from com (together) and fligere (to strike). This distinction between the quest and the blow, to strive or to strike seems precisely the pertinent one for clarity and efficiency in social science. Competition is the act of striving against another force for the purpose of achieving dominance or attaining a reward or goal, or out of a biological imperative such as survival. It is characterized as striving together to win the race not to destroy the other competitors from the point of view of the supporters of globalization.

Most of the new products in the fast moving customer goods (FMCG) category, like processed food products, cosmetics, etc face competition in the market and the firms penetrate into the oligopoly market conditions. This paper attempts to delineate the corporate philosophy after the competitive and cooperative ideologies of the strategy formulation. The discussion in the paper is modulated around sociological, economical and human behavioral paradigms and analytically presents the arguments on the strategic fit of competition and cooperation maxims intended towards the growth of business in a firm. The motivation on these juxtaposed issues of competition and cooperation has been derived from the work of Kohn (1986) entitled. "*No contest: The case against competetion*".

It is argued that the propensity to cooperate may be negatively affected by competition. Experimental evidence supports this hypothesis, hi a set of three experiments in which different degrees of competition characterize the markets participants reduce their contributions to a public project as the degree of competition increases. Not everyone thinks along Alfie Kohn to muddle with the arguments on

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whether cooperation is better than competition. He tries to determine that fix between these two practices and compares competition with doing the best for oneself to some extent. However, the cooperation and partnerships are justified only if they stand to yield substantially better results than the firms could achieve on their own. And even if they are warranted, they can fail if the partners enter them with mismatched expectations. In matters of the heart, it may be better to have loved and lost, but in business relationships, it's better to have headed off the resource sink and lingering resentments a failed partnership can cause. Kohn states while discussing the issues related to economic competition that when regulation is cut back in order to bring more competition to the marketplace, we again witness the true consequences of this competition: its advantages often prove illusory or short-lived or selective which has been viewed controversial by many corporate analysts.

The competition among firms is increasingly shifting from company vs. company to supply chain vs. supply chain. Benefits can be grouped as customer-oriented benefits, productivity benefits, and innovation related benefits. Factors supporting collaboration are observed as trust, common goals for cooperation, and existence of cooperation mechanisms, while barriers are related to three factors such as lack of trust, risk-benefit evaluation, and lack of common goals for cooperation. The collaboration in the business strategy may be considered analogous with the cooperation in the reference to prevailing concerns of the globalization. On the contrary, heavy competition in India in almost all product categories has been experienced due to diversification by large and medium companies and increased entry of multinationals which has restricted the growth of domestic companies. Previously, large companies enjoyed high profit margins by targeting premium priced products in the upper strata of Indian society. High levels of competition from equally reputed brands have not only decreased the companies' market share but also created price wars, reducing profit margins and limiting market growth. This has motivated companies to consider the lower classes and the rural segments, which they had previously ignored. In reference to above two dissimilarities in the business development process, it may be stated that in practice. Kohn's ideology of cooperation as a tool to replace competition thus cannot be generalized.

1.4.4 Creativity and Engagement

Creativity is a concept which we often come across in our everyday conversation. We hear of creative people, admire creative objects of art or read creative books. Yet despite our almost innate understanding of what it means to be creative there is much confusion about the nature of creativity. Wertheimer ([1945] 1959) suggested that creative thinking involves breaking down and restructuring our knowledge about something in order to gain new insights into its nature. Understanding our own cognitive model of reality may therefore be an important determinant of our ability to think creatively. Kelly (1955) and Rogers (1954) both supported this argument by maintaining that we can be creative by gaining an understanding of how we think about a subject. Creativity is something which occurs when we are

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able to organise our thoughts in such a way that readily leads to a different and even better understanding of the subject or situation we are considering. Maslow (1954) thought of creativity as having two levels. He envisaged primary creativity as the source of new discovery, real novelty, or ideas which depart from what exists at a given point in time. He saw secondary creativity as a characteristic possessed by many scientists in their collective search for discovery achieved by working alongside other people, extending the work of previous researchers, and exercising prudence and caution in their claims about new insights or ideas. He envisaged creativity as an aspect of human nature that was to be found universally in all human beings. In children he felt it to be an easily observable phenomenon but suggested that it seemed to become lost in adults, surfacing mainly in dreams with the relaxation of repressions and defences. It was a view that was echoed subsequently by Stein (1974), who argued that without such an assumption the techniques for stimulating creativity would have no application. The rapid growth of competition in business and industry is often quoted as a reason for wanting to understand more about the creative process. Many firms are continually experiencing pressure to enhance old systems and products.

Growth and survival can be related directly to an organisation's ability to produce (or adopt) and implement new products or services, and processes. One of the key aspects of any organisation's success or failure is its ability to stay ahead of the competition in a rapidly changing environment. The modern business, with its emphasis on competition, building larger markets, strategic planning, team working, etc., has created the need for new problem solving and decision-making strategies.

You can't expect your staff to be engaged if you are one of the bad apples. In many "organically grown companies" where high performers were promoted into management positions with little management training, improving their leadership capabilities may be required. At a minimum, building an engaged team requires personal focus, skills, and excellent communications:

- Communicate clear expectations.
- Leverage individual strengths.
- Equip staff with the best technology to do their work optimally.
- Provide praise and recognition regularly.
- Authentically care about the employee as a person.
- Have a concrete development plan that the employee believes is achievable.
- Actively solicit staff opinions, provide feedback, and create opportunities where good suggestions are implemented.
- Create an environment where growth and learning is a constant and valued.

1.4.5 Prioritizing Growth

Regardless of whether you are planning to grow or consolidate, you must decide which division is the priority before you start to identify and implement strategies. This decision is based on the capacity to generate and take on additional work. Some

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of these issues are calculated while others require you to make a judgment based on your experience in the industry and knowledge of your business. Capacity and roadblocks are two factors to remember when determining your critical division. Capacity is your ability to generate, produce/perform, finance and staff additional business activities. Roadblocks are issues that get in the way of capacity. Your diagnosis and SWOT analysis should show your current business capability. Set a target, such as "increase sales 30% next year, based on the introduction of a new product" and ask the following capacity questions:

- **Marketing:** Can we increase sales with our current marketing strategy?
- **Operations:** Can we produce or provide the required goods/services to achieve the sales increase?
- **Human resources:** Can we staff the company, if we achieve the sales increase?
- **Finance:** Can we finance the capital assets and increase working capital required to achieve the sales increase?

If any of the answers are no, you have reached a roadblock. Look for the most difficult roadblock to overcome and you have found your critical business division.

1.4.6 Developing a Growth Proposition and Plan

Planning is the key to any business throughout its existence. Every successful business regularly reviews its business plan to ensure that it continues to meet its needs. It's sensible to review current performance on a regular basis and identify the most likely strategies for growth. Once you've reviewed your progress and identified the key growth areas that you want to target, it's time to revisit your business plan and make it a road map to the next stages for your business.

The business owners usually write a plan outlining their business idea. Business plans include information on the company resources, organizational structure, expected financial return, financing needs and other pertinent information. Where business plans outline the start-up process for businesses, growth plans take an advanced look at new business growth or expansion opportunities. Business owners create growth plans to assess business expansion and new potential growth opportunities.

Business growth planning is usually an extension of the business original plan. Growth plans contain information on how a business owner will expand facilities and acquire additional economic resources to meet increased consumer demand. Business owners often create a basic business growth plan during the early stages of the company operation. As new growth opportunities come along in the economic marketplace, business owners may create more detailed plans on accepting growth or expansion opportunities.

Achieving your goals require a growth plan. Like your business plan, a growth plan clearly states your objectives and the means you plan to use to attain them.

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Your growth plan is essentially your game plan to reaching your goals. It includes, for example:

- Your company's mission.
- Your long-range vision of your company's future.
- The strategic goals that will allow you to reach your vision.
- The means you plan to use to attain your goals (including funding).

Evaluate each of your company divisions

Your company's marketing, operations, Human Resources and finance divisions must be critically evaluated in terms of the growth plan. This analysis will allow you to make a comprehensive diagnostic of the current state of each component and, if appropriate, identify needed changes. The evaluation must be honest, objective and exhaustive so you can draw relevant conclusions.

Sample questions to ask:

- Is each division achieving its full potential?
- Will each division be able to meet the new demands of the growth plan?
- Does the management team have the experience required in the event of the takeover of a competitor?
- Does HR possess the language skills it needs to do business in China?

SWOT analysis

Analyzing your company's Strengths, Weaknesses, Opportunities and Threats (SWOT analysis) is a proven and commonly used strategic planning technique that can help you to identify the aspects of your organization that need to be improved in order to reach the goals outlined in your growth plan. It enables you to assess your competitive position through an analysis of your company's internal and external environments.

- **Strengths** are the specific aspects of your company that have contributed to your success so far.
- **Weaknesses** are the aspects of your company that need to be improved.
- **Opportunities** are the external conditions that favourably impact your company.
- **Threats** are the risks posed by external conditions to your company.

Choose a growth strategy

There are several ways to make your company grow. You can increase sales with any of the following strategies:

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Innovation	Invest in research and development to create new product and service designs, or ways of delivering them.
Market concentration	Convince potential customers in a given market to purchase your products and services, or existing customers to buy more.
Market penetration	Sell your products or services outside your local market.
Diversification	Develop new products and services to meet the needs of current or new customers.

Once you've drawn up your new business plan and put it into practice, it needs to be continually monitored to make sure that the objectives are being achieved. This review process should follow an assessment of your progress to date and an analysis of the most promising ways to develop your business.

This process is called the business plan cycle. In some businesses, the cycle may be a continuous process with the plan being regularly updated and monitored. For most businesses, an annual plan - broken down into four quarterly operating plans - is sufficient. However, if a business is heavily sales driven, it can make more sense to have a monthly operating plan, supplemented where necessary with weekly targets and reviews.

It's important to keep in mind that major events in your business' target marketplace (e.g., competitor consolidation, acquisition of a major customer) or in the broader environment (e.g., new legislation) should trigger a review of your strategic objectives.

Regardless of whether or not there are fixed time intervals in your business plan, it must be part of a rolling process, with regular assessment of performance against the plan and agreement of a revised forecast if necessary.

1.5 BUILDING UP THE GROWTH SINEWS: FINE-WARE, SOFT-WARE AND HARD-WARE

Business growth is something that any entrepreneur strives to sustain as their enterprise advances in age. However, some lack the knowledge needed to develop successful strategies to spur and sustain growth. There are also key considerations that apply to any merchant keen on expanding their operations. While there are numerous techniques that merchants employ when they want to expand, a few core factors apply in most cases. Here are some basic components of the most successful strategies.

The success of any enterprise largely depends on its workforce. For this reason, you should always engage right-minded people in your firm. Your staff has to make tangible contribution to the firm for it to grow. This ensures that your

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business is steered towards the right direction for success and expansion. A business' workforce is comprised of the management and subordinate staff. The management plays an important role in growth by providing good leadership. Managers also hold the responsibility of decision-making in a firm. Most firms are always looking for effective and capable managers to take the helm of their operations. It is also essential to get a brilliant subordinate staff. These individuals handle most of the projects in a firm. They form the driving force towards success in an organization, but are often overlooked and underappreciated. If your employees have the ability to work together in order to deliver good results from projects, then your firm will achieve growth.

You should also seek ways in which you can expand your customer base. Clients form the lifeblood of any commercial organization; therefore their influx has a direct impact on development. An enterprise whose client base is enormous is able to make more sales and generate more revenue. It is therefore vital for any firm to plan strategies that will increase its client base. There are many methods that a firm can use to increase its customer base. One of these is aggressive promotion and marketing. You should pursue potential clients relentlessly; this is what separates excelling enterprises from their mediocre counterparts. Your advertising campaign should have the ability to draw the attention of interested clients. Ensure that the clients are attended to satisfactorily so that you retain the already existing customers as well.

Your products and services should also be tailored to contribute to growth. Add new dimensions to them by improving their functionality/technology so that users are able to reap more benefits from them. It is also important to examine your production process and adopt techniques that are more efficient where possible. This enables you to not only to come up with better commodities, but also cut costs and increase profits.

Ensure that your product range not only resonates with client needs, but also conforms to current trends. Take time to identify new technologies which will enable your commodities to better fulfill the needs of the customers better. Vendors and retail outlets have direct contact with clients. Keeping in touch with your distributors enables you to keep an ear on the ground in order to find out what the clients need and want. Social Media is a great modern way of doing this that is essentially free and easy. A combination of all of these strategies will enable you to realize sustainable business growth into the future.

Sometimes the economic environment in which your business operates allows for large revenue gains and exponential growth. If you are fortunate and strategic enough to experience the leading factors of exponential growth for your business, you must prepare to handle the demands of the market. An unprepared business risks losing customers because of production limitations and other problems.

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First-Mover Advantage

Any business entering a market without competition has the potential for first-mover advantage. To achieve the exponential growth associated with the first-mover advantage, the market must have a significant demand for the business' product. For example, if a city wired for Internet lacks a computer store, a computer business that builds a location in the city stands to capture a large share of the market and increase its revenue exponentially.

Product Innovation

Innovative products are the products that did not exist previously for the public to buy. Innovative products can be completely new inventions or modifications to an existing concept. If your business has an innovative product that fulfills a need for the consumers, your business will experience exponential growth in the short-term as customers buy the product. For instance, if your business develops an affordable 3D technology for computer monitors, your product innovation could lead to rapid growth as consumers flock to your business.

Financial Capital

Strong financial backing may lead to exponential growth for businesses that use the capital for expansion. Investors and venture capitalists that back new and existing businesses pump money into their investment so exponential growth can occur. For instance, if a business has a significant amount of cash on hand for expansion, it can buy the machinery needed to increase production and hire the staff necessary to increase sales. Without exponential growth, investors could not make their money back in a reasonable amount of time.

Demand Changes

Demand changes in the market can influence the growth of your business significantly. If economic circumstances cause consumers to adjust their spending habits, your business could see the benefit. For instance, if you own a pawn shop and the national economy slows down, causing consumers to seek small loans and sell items, your business will see substantial increase in revenue. This revenue increase can lead to exponential growth for the short- or long-term.

People and resources

With a little effort and creative thinking you can build and nurture a team of efficient, loyal and hardworking employees without spending money you don't have. Some of the best motivators include simply saying thank you for a job well done, taking the time to listen to your people, encouraging creative thinking, providing inspiring speakers to motivate your employees, providing more direct time with the boss, and supporting not-for profit organisations with volunteered time and services.

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Organisational structures

The difficulty in structuring knows how to align the commercial needs of your business with its tax requirements in a way that produces the best possible result. A growing business may have outgrown its current structure, may need to establish new structures, or wish to wind up existing ones. The tax implications can be extensive from a capital gains tax, stamp duty, payroll tax, fringe benefits tax, GST, or even an international tax perspective.

Strategic planning

Do you know what metrics you should have on a 'dashboard' to run your business? Focus on the actions that create the results. What are your key performance indicators? Are they relevant and do the right people know what they are? Do you make sure you schedule in time to regularly review your 'dashboard' and strategic plan.

Extracting value

There are a number of ways to extract value, and a full exit may not be the most effective option. Perhaps a partial exit may be an option if you have a strong business that is attractive to investment groups or venture capitalists, and you want to release some cash now but stay in the business until it has reached its next level of growth and profitability. Exit options you may be able to consider include: a trade sale, handing over ownership to relatives, a management buy-out, stock market flotation, or a voluntary liquidation.

Expanding overseas

A natural consequence of growth can be reaching critical mass locally and looking to expand into overseas markets. The challenges include language barriers, cultural differences, currency exchange issues, conflicting laws and the difficulty and costs of international travel. Nevertheless, the corporations that overcome these have a distinct advantage over their rivals – the opportunity to capture important market share.

Expanding products and services

Identifying where your products or services are in their lifecycle is central to your profitability. Effective research into your markets and competitors will help you do this. The stages involve: developing your product, launching your product, growing your market, product maturity, followed eventually by market decline.

Caselet: Economy builds new sinews

Fiscal and monetary policies have to be designed to enable heavy outlays in close cooperation with Indian and foreign interests in the private sector.

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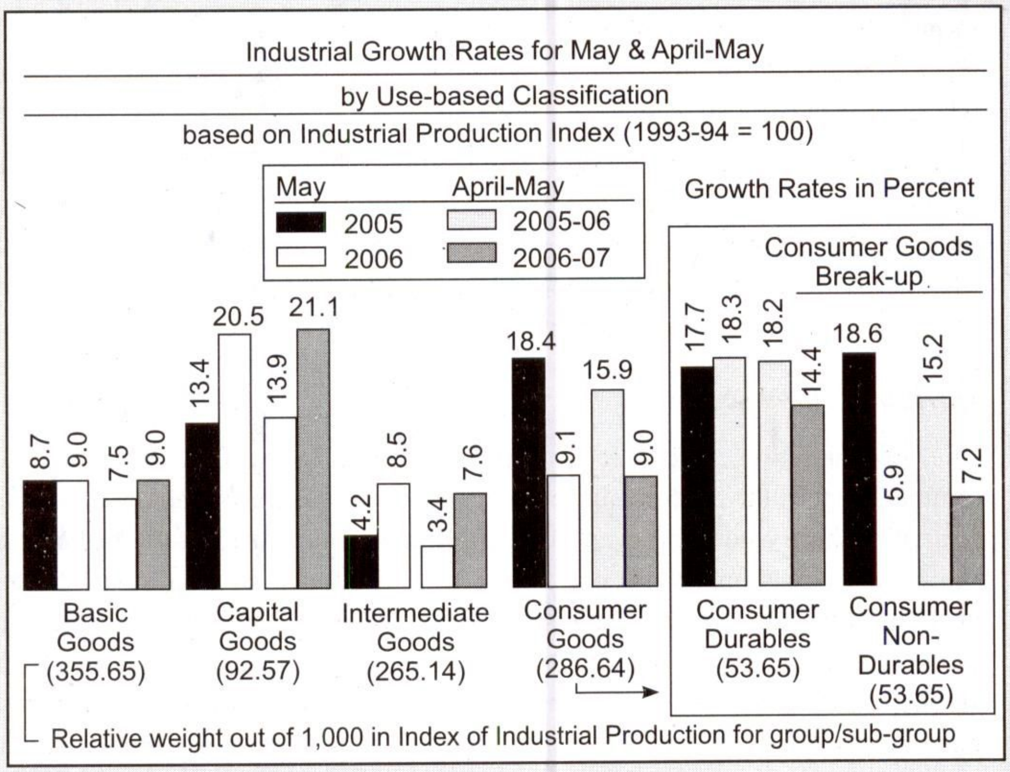
The caution optimism expressed by the Reserve Bank Governor, Y. V. Reddy, while reviewing the monetary policy for 2006-07, inspite of fears of an accentuation of inflationary pressures and a harsh impact of the hardening interest rates worldwide, would seem justified. The growth in Gross Domestic Product this year may exceed 8 per cent thanks to the satisfactory behaviour of the monsoon so far and favourable developments in other sectors of the economy.

The major industries have been performing well and several foreign interests are reported to be finalising plans to increase investments in mega projects in the steel, automobile, telecommunication and electronic sectors. Indeed, some international financial consultants have upgraded India's investment potential and are inclined to develop India as their export base. Also, many foreign and Indian interests have decided to set up projects in the Special Economic Zones (SEZs) in different parts of the country. However, it remains to be seen how the high oil prices in world markets will add to inflationary pressures and the Government will meet the mounting subsidy burden. The impact of a bulging oil import bill will also be felt severely in the coming months.



Major industries on a roll

Even with effective use of enlarged capacities in different industries, shortages of steel have been reported in some regions while a larger output of cement is getting avidly absorbed and it has been necessary to divert clinker meant for export to the domestic market. The sugar industry has benefited from a much

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higher production in the current crushing season. For the first time in recent years, it has realised handsome profits even on exports. A few managements have been inclined to export more because export prices are higher than in India.

The Agriculture Ministry was compelled to ban exports of sugar with a view to conserving supplies for domestic consumption. However, with the prospect of record sugar production, the export ban is being partially lifted with shipments allowed on prior permission basis.

All the efficient units are in a position to realise record profits and at the same time enable the Ministry of Petroleum and Natural Gas to secure larger quantities of ethanol and moderate crude imports. The textile, capital goods, chemical and petrochemical industries have been raising output and planning new projects on ambitious lines.

Industrial output grew by 9.8 per cent in April-May against 9.5 per cent a year ago and the target of 12 per cent will be feasible if the weaknesses in the mining and infrastructure industries can be remedied. The services sector continues to perform spectacularly and forex earnings from this source are helping to prevent an uncomfortable rise in current account deficit. Export growth has been significantly higher at 32.40 per cent in April-June and earnings for the whole year may be sizable at $126 billion.

The deficit on current account was, of course, further higher at $10.61 billion in 2005-06 against $5.40 billion in 2004-05 inspite of rising invisible receipts, as the trade gap according to RBI got enlarged to $51.55 billion from $36.63 billion. There may be a sizable deficit under this head in 2006-07 as well. But there is reason to believe that the situation will get corrected in two or three years.

Intriguing food scene

The food situation, of course, is causing concern to the Government despite bumper crops in the 2005-06 agricultural season. What are the factors behind this situation where wheat and even rice are getting scarce? As a measure of caution, the Agriculture Ministry has had to import wheat for maintaining buffer stocks at the minimum prescribed levels. In earlier years, the problem related to the marketing of bumper crops and intensification of procurement operations. Buffer stocks rose as high as 63 million tonnes in July 2002. But with the vigorous execution of food-for-work programmes and sizable export, these stocks declined steadily.

In the meantime, the demand for fine cereals and indeed all primary products has risen unexpectedly. It has become necessary to plan for increasing the yield of food and cash crops as well as pulses to a total of 220 million tonnes and above in a short period and raise also the share of agriculture and allied industries in GDP growth to 4 per cent. It has been emphasised in the first quarter review of

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the monetary policy that the targets for expansion of credit to agriculture and other sectors have been exceeded and bank managements are worried about their ability to satisfy all classes of borrowers, in the absence of a substantial rise in the total pool of resources.

Credit explosion

Much enterprising industrial management have even been borrowing heavily in foreign currencies. The unprecedented rise in short-term borrowing in foreign currencies was mainly responsible for the significant growth in forex reserves in April-June. But these loans will involve larger repayment in rupees, as the Indian currency has been depreciating against the U.S. dollar, euro, pound sterling and other major currencies.

With a view to restricting loans to real estate borrowers and personal loans, interest rates have been raised significantly. In other directions too, fresh borrowing is becoming costlier, as banks have been obliged to increase interest rates on deposits. There has also been a hardening of interest rates in developed countries. Since the Central and State governments also have to increase their borrowing to bridge enlarging fiscal deficits and implementing plan schemes, the additions to bank deposits may have to be more than ₹ 3,50,000 crore in the current financial year while inflows of FII and FDI also have to be on a bigger scale. The fiscal and monetary policies have thus to be designed to enable heavy outlays in close cooperation with Indian and foreign interests in the private sector.

Source: *http://www.hindu.com/biz/2006/08/07/stories/2006080702961700.htm*

1.6 GROWTH PROPELLERS AND ESCALATORS

A businessman is motivated to grow for more than one reason. The various factors which drive him to grow are discussed in the following paragraphs.

1. **Forces of competition:** A businessman needs to grow, if he wants to survive in the market. Acute competition usually forces a businessman to grow in order to maintain his existence. In other words, a businessman has to be creative or he should innovate new things so that he is able to retain his present position.
2. **Economies of bulk:** A businessman can avail certain benefits, if he increases his volume of production. Large scale production provides several economies not only in the field of production but also in the areas of marketing, finance, management, etc. Such economies of scale may include strong bargaining power, lower overheads, availability of finance at lower rates, etc. The per unit cost of operation gets lowered due to the above mentioned economies.

3. **Better returns:** The motive of the businessman to obtain more and more profits leads him to grow. He ensures growth of his organisation through continuous ploughing back part of profits instead of distribution of entire earnings .The size of the business thus gets expanded.

4. **Modern technology:** Business firms try to expand the size of the business in order to take advantage of modern or latest technology. Only large firms can take full advantage of hi-tech machines.

5. **Goodwill:** At times business firms prefer to expand in order to command power and respect. People take pride in owning business of large size. Business firms grow to achieve reputation. With reputation and size, power is not far behind. Big companies, no doubt, have more economic and social power compared to small business units.

6. **Personal factors:** Personal factors comprise individual organizational abilities, ambition, etc. These factors also drive businessmen towards the growth of their business firms. Certain businessmen may be highly ambitious or they may be endowed with special organizational skills. They may want to be independent too in respect of, say, marketing of raw materials or finished products.

7. **Trade cycles:** Trade cycles also influence the decision of growth of a business firm. During a period of boom, businessman generally reaps high profits due to high production and high sales. The problem arises when at the time of depression economic activities come to the lowest level. The demand for the products goes down and so do the prices and profits. At this point of time when the businessmen are faced with the problem of closing down the business, they think of joining with other firms. They combine their businesses and grow.

Here are several additional factors for a company's managers to have in mind about growth:

1. **Globalization:** The world is becoming the marketplace. Companies must learn to contend with planning growth in a variety of nations, not just domestically. Companies must become versed in cultures of countries where they do business – and speak the languages of the people in those countries.

2. **Understanding Markets:** It is not sufficient to just package and ship domestic products. To grow, companies must know the intimate details of how to sell in many nations – distribution channels, pricing, hidden elements.

3. **A Questioning Nature:** It is becoming more necessary to be "hands on with details." People involved in managing growth need to know what questions to ask, when, and how.

4. **Adeptness to Technologies:** A variety of new technologies are impacting all businesses. These must be understood by those directing growth. Trends with

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Check Your Progress

Fill in the Blanks

4. ....may be defined as an object centered process in business performance.
5. ....is something that any entrepreneur strives to sustain as their enterprise advances in age.
6. Competition is the act of striving against another force for the purpose of achieving dominance or attaining a reward or goal, or out of a .... such as survival.
7. The ability to leverage core competencies across geographic and product business units helps firms to achieve .... and scope.

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these must be identified and directed. New computer software, manufacturing methods, and other advancements in technology must be utilized to boost productivity.

5. **Building Teams:** People must subscribe to the vision of the company in which they are managing growth. They must understand the role, direction, and philosophy of the business.., and work to make it happen.
6. **Size is a Key Element:** Problems with growth occur as companies get larger. Somehow, as people are added, bureaucracies form, new layers of management appear on the organizational chart. As a business grows, it is wise to be very precise about what new services or managerial functions must be added, which can be acquired outside, or done in existing operations.
7. **The Simpler, The Better:** Do not permit redundancies to occur. They create overlap. Keep organizations simple with direct reporting relationships, accessibility to people who have the information. Use new and emerging computer technologies, such as computerized executive information systems, to deliver information in ways that are immediately useful to all involved in the growth aspects of the business.
8. **Communications:** Many companies pay it lip service. We believe communications is a business discipline just like finance, sales, or manufacturing. We diligently practice communications at all levels. We work to have employees at all levels understand the company. The core of our efforts in this area is simple, plainly worded mission statements and fundamental management systems.

1.7 REINVENTING THE FUTURE

Change is the key reason that business organizations need to reinvent themselves. Sooner or later, every business will experience a slowdown in its growth rate. The classical S-shaped business lifecycle growth pattern starts out with relatively slow growth, moves into a more rapid growth pace, then plateaus. If the business does not become re-invigorated, its revenues will then decline. Slowdowns in a company's growth are natural, and they occur for many reasons. For example, advances in technology may obsolete a company's products. Competitors will appear offering more innovative products and services, or at lower prices. Or the company may have failed to effectively execute some of its internal functions – e.g., marketing, sales, or distribution. Whatever the reasons for the change and its impact on the company, CEOs and other senior executives need to be alert to the changes that are occurring in the competitive environment, technology, new products and services in the marketplace, and customer desires and attitudes – all of which are likely to affect their businesses. And based on these developments, they need to develop strategies and take actions that will offset and counteract these trends, and move the company

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along a new and different path that will continue the company's growth. Furthermore, they need to take these actions sooner rather than later, in order to avert a substantial decline in growth. Early problem identification and remedial action are critical to successful company reinvention.

The research shows that "the companies that successfully reinvent themselves have one trait in common. They tend to broaden their focus beyond the financial S-Curve [that tracks revenue growth] and manage to three much shorter but vitally important S-Curves" - (1) one that tracks the basis of competition in their industry; (2) one that monitors actions to renew their capabilities; and (3) one that tracks their nurturing of a ready supply of talent.

Here's how the high-performance companies use these hidden curves:

The Competition Curve

High-performers "watch how competition in the industry is shifting. They see changes in customer needs and create the next basis of competition in their industry, even as they exploit existing businesses that have not yet peaked."

The Capabilities Curve

High-performers invariably create distinctive capabilities. But distinctiveness in capabilities is fleeting, so executives must invest in developing new capabilities in order to move to the next more competitive capabilities curve.

The Talent Curve

High-performing companies maintain a steady commitment to talent creation. Companies often lose focus on developing and retaining enough of what Nunes and Greene call "serious talent," i.e., people with both the capabilities and the will to drive new business growth. They often feel that operations can be "leaner and meaner," and so they may reduce headcounts and their investment in talent, which drive away "the very people they could rely on to help them reinvent the business."

Strategies for Growth Reinvention

In their recently-published book, "Rethink, Reinvent, Reposition: 12 Strategies to Renew Your Business and Boost Your Bottom Line," Lee Hopf and William Welter provide a range of reinvention strategies based on customer relationships (existing vs. new) and hard and soft company assets (existing vs. new). Hopf is a management consultant who teaches at Stanford University and the University of Minnesota. By examining different combinations of customer needs and company assets, the 12 strategies are described briefly as follows:

New Concept Group of Strategies: *Existing Customers/Existing Assets*

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1. **Catch the new wave:** Shift your current business into areas that are hot.
2. **Put Old Wine in New Bottles:** Repackage/rebrand your offerings to make them seem fresh and original.
3. **Revise Your Profit Model:** If the way you are charging for your products and services is no longer effective, find other ways to generate revenue and profits.

Business Extension Strategies: *New Customers/Existing Assets*

1. **Aim Higher or Lower:** Move significantly up-market or down-market to serve customers you previously did not reach.
2. **Make a Time Shift:** Reach different customers by doing business on a different day or new time.
3. **Get a Personality Transplant:** Focus on new and emerging end-user needs.

Solutions Group of Strategies: *Existing Customers/New Assets*

1. **Build Share of Wallet:** Meet more of your customers' needs and desires.
2. **Shift to the Sweet Spot:** Develop new offerings for the best part of the value chain.
3. **Leverage Your Core Competencies:** Identify your core competencies and use these strengths to serve your customers in new ways.

Business Transformation Group: *New Customers/New Assets*

1. **Declare Victory and Move On:** Realize the value you have created and use it to create something new and different in another industry.
2. **Keep the Knowledge, Switch the Business:** Leverage the strength of your processes and systems to enter unrelated lines of business.
3. **Cash Out and Double Down:** Sell non-performing business units and invest in the ones that have the most potential for success.

1.8 SUMMARY

- Growth means getting incremental new business that provides long-term customer value and delivers better shareholder value over time.
- The term growth management may be defined as a strategy devised by management to plan the long-term future of the business.
- A strategy is a well-planned course of action designed to achieve a specific objective. A growth strategy is a strategic plan meant to expand the operations

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of a business firm. A strategy which a firm may adopt will depend upon the fact whether the businessman wants to develop internally or externally.

- Every organisation follows some pattern of growth. Some businessmen may experience no growth at all and may have to leave the arena soon. On the other hand there may be a few who experience slow growth while there may be others who feel that their business is expanding at a very fast rate.
- As your business grows you may dive into various business activities and ventures and this calls for a single minded effort from all your employees and allies.
- In order to achieve sustained business growth companies must look to their hidden assets: customers, brands, product know-how, channel position, knowledge management, external networks and the value chain; to unleash their growth potential.
- Businesses that succeed in sustaining their growth over time are those that plan effectively and follow a set of common elements, typically covering four key areas. We call this the 'Four Cornerstones of Sustained Growth'.
- Successful entrepreneurs are astute at, first, identifying opportunities and, second, taking action to pursue those opportunities.
- Competition may be defined as an object centered process in business performance.
- The collaboration in the business strategy may be considered analogous with the cooperation in the reference to prevailing concerns of the globalization. On the contrary, heavy competition in India in almost all product categories has been experienced due to diversification by large and medium companies and increased entry of multinationals which has restricted the growth of domestic companies.
- Business growth is something that any entrepreneur strives to sustain as their enterprise advances in age.
- The success of any enterprise largely depends on its workforce. For this reason, you should always engage right-minded people in your firm. Your staff has to make tangible contribution to the firm for it to grow.
- Change is the key reason that business organizations need to reinvent themselves. Sooner or later, every business will experience a slowdown in its growth rate. The classical S-shaped business lifecycle growth pattern starts out with relatively slow growth, moves into a more rapid growth pace, then plateaus.

1.9 KEY TERMS

- **Growth:** Growth means getting incremental new business that provides long-term customer value and delivers better shareholder value over time.

- **Growth Management:** The term growth management may be defined as a strategy devised by management to plan the long-term future of the business.
- **Strategy:** A strategy is a well-planned course of action designed to achieve a specific objective.
- **Competition:** Competition may be defined as an object centered process in business performance.

1.10 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Growth means getting incremental new business that provides long-term customer value and delivers better shareholder value over time.
2. Men, material and money are the sinews of business, but the most important of these is men.
3. A strategy is a well-planned course of action designed to achieve a specific objective.
4. Competition
5. Business growth
6. biological imperative
7. economies of scale

1.11 QUESTIONS AND EXERCISES

Short Answer Questions

1. Define growth and growth management.
2. What is the significance of growth management?
3. What do you mean by sinews?
4. What are the key strategies of growth?
5. Write a short note on competition and cooperation.
6. Define sinews.
7. What are the key growth propellers?
8. What is the staging of growth management?

Long Answer Questions

1. Define growth management. Why we need growth management?

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2. Describe the six s process of growth management.
3. Write a detail note on growth sinews.
4. Discuss the building-up of growth sinews.
5. What are the key propellers and escalators of growth management?
6. Discuss the concept of reinvesting the future.

UNIT 2 STRATEGIZING GROWTH

Structure

2.0 INTRODUCTION

Business growth strategies are the strategies you can use to increase the size of your business. The best business growth strategies for your business will grow your business top line and bottom line over the long-term and can also help you in creating competitive advantage over your competitors. The best business growth strategy for your company may not be the same as your competitor's. You may need to take a completely different approach than competitors in your industry in order to grow your business. Market research and forecasting ahead on ways to meet clients' needs before business strategy planning is essential, if you expect profitable growth.

The best competitive business strategy is the one that will allow your company to experience solid growth. Trying to compete in an area in which your competitors are likely to eventually overtake you is a poor business growth strategy in the long run. Either you'll need to sell more of the products you currently have by opening new stores or branch out into capturing new markets by offering different items. These new products shouldn't be goods that your competitors could simply start carrying, but rather angle them to fit your company's unique selling proposition (USP).

For instance, shoe stores sell the same product, yet often have very different USPs, target customers and marketing angles. A luxury footwear store chain carries expensive brands. These stores are likely to have high end furnishings with the shoes elegantly displayed. Attentive clerks typically assist customers.

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Footwear chains that focus on the budget-conscious consumer are very different. The stores are practical in design and often have aisles piled high with boxed shoes for customers to try on themselves. Since the different store types target different customers, it wouldn't make sense to use the same strategies. Customers of the expensive shoe store aren't likely to welcome the idea of forgoing attentive service to dig through a messy stack of shoe boxes to find something they may like. Likewise, the budget shoe store creating expenses to make a fancier decor and footwear displays would be a poor business growth strategy since the customers wouldn't expect to pay more for the same products.

Global, rather than local, regional or national, market growth may be an ideal extension strategy for companies with a worldwide market. New sales possibilities would be created, but this business growth strategy needs to be weighed against logistics and costs involving added employees, transportation, commercial property and distribution. With the often lower labor and property costs in overseas countries, many larger companies do find global growth to be profitable.

Green business strategy may create growth by attracting a new eco-friendly target market. In some countries, government initiatives such as grants may be awarded to companies with a focus on environmental protection. A green-focused business growth strategy should first be carefully researched and planned out to ensure all laws and regulations will be met.

2.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- State the strategic thrusts for growth
- Describe the key improvement and venture strategies of the growth
- Make the choice of strategic growth.

2.2 STRATEGIC THRUSTS FOR GROWTH

Growth is a strategic thrust consisting of many ongoing actions, occurring at both group and divisional levels. Examples of actions include areas of service and product innovation, acquisitions in developing markets and social and community leadership.

The strategic theory of wiseman helps the firm in obtaining the maximum information from the resources of the firm for its competitive advantage.

There are three main parties to the strategic theory of wiseman, including suppliers, competitors and customers. To gain the competitive advantage these parties are combined together to form five kind of organizations. These are:

1. **Differentiation thrust:** This helps in focusing on the information that has been left unfulfilled or there is some gap in the expected and provided service.

2. **Cost thrust:** This kind of thrust focuses on minimizing the cost and increasing the competitor cost.
3. **Innovation thrust:** This kind of thrust focuses on doing something different which includes making new products with differentiating features and specifications.
4. **Growth thrust:** This kind of thrust focuses on increasing the horizon of the business that includes increasing volume and market size.
5. **Alliance thrust:** This kind of thrust focuses on the mergers and acquisitions for increasing the business and making the firm more competitive.

2.3 IMPROVEMENT STRATEGIES (SYNERGY AND VALUE CHAIN BASED)

Improvement strategies involve raising the market share, sales revenue and profit of the present product or services. The firm slowly increases its production and so it is called internal growth strategy. It is a good strategy for firms with a smaller share of the market. Three alternative strategies are available in this regard.

2.3.1 Vertical Growth

When an organization starts making new products that serve its own needs vertical integration takes place. Vertical integration could be of two types **Backward** and **forward integration**. Backward integration means moving back to the source of raw materials while forward integration moves the organization nearer to the ultimate customer. Generally when firms vertically integrate they do so in a complete manner that is they move backward or forward decisively resulting in a full integration but when a firm does not commit it fully it is possible to have partial vertical integration strategies too. Two such partial vertical integration strategies are 'taper' integration and 'quasi' integration. Taper integration requires firms to make a part of their own requirements and to buy the rest from outsiders. Through quasi integration strategies firm purchase most of their requirements from other firms in which they have an ownership stake. Ancillary industrial units and outsourcing through sub contracting are adapted forms of quasi integration.

Backward integration

Backward integration involves moving toward the input of the present product. It is aimed at moving lower on the production process so that the firm is able to supply its own raw materials or basic components. For example, a car manufacturer may start producing tire tubes; Reliance Industries Ltd. has been able to grow largely through backward integration. It started business with textiles and went for backward integration to produce PFY (Polyester Filament Yarn) and PSF (Polyester Staple Fiber) critical raw materials for textiles, PTA (Purified Telepathic Acid) and MEG

(Monoethyl Glycol) raw materials for PFY and PSF, propylene raw materials for PTA and MEG, and finally naphtha for producing propylene.

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Advantages

Backward integration has the following advantages:

(i) *Regular supply:* It ensures regular supply of raw materials or components.

(ii) *High return on investment:* It facilitates higher return on investment for the company as a whole through better use of overhead facilities.

(iii) *Competitiveness:* It improves the competitive power of the company. As it controls more elements of the production process, it has advantages over the uninterested firms in the form of lower costs, lower prices and lower risks.

(iv) *Quality control:* It improves quality control over imports for the final product.

(v) *Bargaining power:* It improves the company's power of negotiation with suppliers on the basis of known costs.

(vi) *Tax saving:* It saves indirect taxes payable on the purchase of inputs.

Disadvantages

Backward integration has the following limitations:

(a) If an existing input producing unit is taken over, it may involve large investment.

(b) By investing heavily in backward integration the developments of the final products nay get hampered. This in turn may lead to undue pressure on pricing and sales effort.

(c) In the absence of backward integration the firm may purchase at a lower cost from technically more efficient suppliers. With backward integration, this opportunity gets lost.

(d) Any adverse changes in the economy affecting the present product market will also affect adversely the production of inputs.

(e) When the divisions using the inputs do not have the freedom of comparing market conditions of supply, the problem of transfer pricing may become acute.

Forward integration

Forward integration means the firm entering into the business of distributing or selling its present products. It refers to moving upwards in the production/distribution process towards the ultimate consumer. The firm sets-up its own retail outlets for the sale of

its own products. For example, many companies like Bata, DCM, Bombay Dyeing, Raymonds and Reliance have set-up their own retail outlets to sell their fabrics.

Advantages

Forward integration has the following advantages:

(i) The firm can exercise greater control over sales and prices of its products. This is very useful in an oligopolistic market.

(ii) The firm's own retail stores serve as better source of customer feedback. Thus the firm gets better control over quality

(iii) The firm can improve its profits by reducing the costs of distribution and the costs of middlemen.

(iv) The firm can secure the economies of integration. Handling and transportation costs can be reduced.

Disadvantages

Forward integration suffers from the following drawbacks:

(a) The proportion of fixed costs in the firm's costs increases. As a result the firm is exposed to greater cyclical changes in earnings. Moreover, the fortunes of business are tied to the in-house distribution system. From this point of view, forward integration increases business risk.

(b) Since its processes are interdependent, a slight interruption in one process may dislocate the entire production system.

(c) In the absence of proper balance between up-stream and down-stream units, the firm has to buy from or sell in the open market. The firm may be competing with its own customers.

(d) It is very difficult to efficiently manage an integrated firm because every business has its own structure, technology and problems.

2.3.2 Horizontal Growth (Related Growth and Unrelated Growth)

When an organization takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration. When a luggage company takes over its rival luggage company, it is **horizontal integration**. Horizontal integration strategy may be frequently adopted with a view to expand geographically by buying a competitors business, to increase the market share or to benefit from economies of scale. For example, Sparta Ceramics India Ltd. took over Neyveli Ceramics and Refractories Ltd. (Neycer). Both the companies are in sanitary ware and tiles business. Two or more competing firms are brought together under single ownership and control. Seven small cement firms combined and formed Associated Cement Companies (ACC).

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Advantages

Horizontal integration has the following advantages:

(i) Wasteful competition among the combining firms is removed.

(ii) It provides economies of large-scale production and distribution.

(iii) It provides better control over the market and increases the competitiveness of the company.

(iv) The firm gets better control over supply and prices of the product.

Disadvantages

Horizontal integration has the following limitations:

(i) The firm is not confident of supply of raw materials.

(ii) If many firms combine to form horizontal integration, there is a risk of over-capitalisation.

(iii) The management of the firm may become bureaucratic and inflexible.

(iv) The firm may acquire exploit consumers and labour by becoming a monopoly.

2.3.3 Evolutionary Growth and Continuous Growth

Evolutionary growth may be defined as continuous and incremental innovations of a firm's existing business. It can be argued that evolutionary innovators can be highly successful with limited risk – in large part, innovation returns come from evolution. Moreover, evolution accounts for the majority of innovation activities in most firms. The problem: evolutionary innovation only optimizes and exploits existing businesses and prolongs their trajectories.

Continuous or incremental growth and productivity are essential for businesses: incremental revenue growth, incremental cost of goods sold productivity and as a result, incremental earnings growth. Many companies have become well-oiled machines at growing incrementally. In fact, you can use the tools of continuous improvement to calculate their consistent capability (C_{pk}). But there will come a time in the lifecycle of every business when it's just not enough.

Instead, in the face of economic and competitive pressures, they need more. They need to kick it up a notch: a big notch. That's when the incremental way of doing things in an odd way turns from an advantage to a handicap. Over time, these companies have built incrementalism into the design of their business model: incremental new products, incremental marketing, incremental productivity, incremental earnings growth. Then, when they need to break through to the next level, they can't. They aren't designed for the next level. Their strategies, processes, organization, technology and culture are all finely tuned machines churning out incremental results.

2.3.4 Organic Growth

It can also be termed as internal growth. It is growth from within. It is planned and slow increase in the size and resources of the firm. A firm can grow internally by ploughing back of its profits into the business every year. This leads to the growth of production and sales turnover of the business. Internal growth may take place either through increase in the sales of existing products or by adding new products. Internal growth is slow and involves comparatively little change in the existing organization structure. It can be planned and managed easily as it is slow. The ways used by the management for internal growth include:

(i) intensification

(ii) diversification and

(iii) modernization.

Intensive Growth Strategies

Intensive growth strategy or expansion involves raising the market share, sales revenue and profit of the present product or services. The firm slowly increases its production and so it is called *internal growth strategy*. It is a good strategy for firms with a smaller share of the market. Three alternative strategies are available in this regard. These are:

- **Market Penetration:** It involves selling more products to the same market by focusing intensely on existing markets with its present products, increasing usage by existing customers and increasing market share and restructures a mature market by driving out competitors e.g., Low pricing strategies.
- **Market Development:** It involves selling the same products to the new markets by attracting new users to its existing products. Market development can be geographic wise and demographic wise. e.g., XEROX Company educated small business entrepreneurs to create new markets.
- **Product Development:** It involves selling new products to the same markets by introducing newer products in existing markets. E.g.: the tourism industry in India has not been able to attract new customers in significant numbers. New products such as selling India as a golfing or ayuerveda-based medical treatment destination are some of the product development efforts in the tourism industry to attract more tourists.

Advantages of concentration strategies

- Involves minimal organizational changes and is less threatening.
- Enables the firm to specialize by gaining the in-depth knowledge of the businesses.
- Enables the firm to develop competitive advantage.
- Decision-making can be made easily as there is a high-level of productivity.

- Systems and processes within the firm become familiar to the people in the organization.

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Disadvantages of concentration strategies

- It is dependent on one industry, if there is any worse condition in the industry the firm will be affected.
- Factors such as product obsolescence, fickleness of market, emergence of newer technologies are threat to concentrated firm.
- Managers may not be able to sustain interest and find the work less challenging.
- It may lead to cash flow problems.

Diversification

Diversification is a much used and much talked about set of strategies. It involves a substantial change in the business definition – singly or jointly- in terms of customer groups or alternative technologies of one or more of a firm's businesses. There are two categories of diversification i.e., concentric and conglomerate diversification.

Concentric Diversification: When an organization takes up an activity in such a manner that is related to the existing business definition of one or more firms businesses, either in terms of customer groups, customer's functions or alternative technologies, it is called *concentric diversification*. Concentric diversification may be of three types:

- *Marketing related concentric diversification:* when a similar type of product is offered with the help of a unrelated technology for e.g., a company in the sewing machine business diversifies in to kitchen ware and household appliances, which are sold to house wives through a chain of retail stores.
- *Technology related concentric diversification:* when a new type of product or service is provided with the help of related technology, for e.g., a leasing firm offering hire-purchase services to the institutional customers also starts consumer financing for the purchase of durables to individual customers.
- *Marketing technology related concentric diversification:* when a similar type of product is provided with the help of related technology, for e.g., a rain coat manufacturer makes other rubber based items, such as water proof shoes and rubber gloves sold through the same retail outlets.

Conglomerate Diversification: when an organization adopts a strategy which requires taking of those activities which are unrelated to the existing businesses definition of one or more of its businesses either in terms of their respective customer groups, customer functions or alternative technologies. Example of Indian company which have adopted a part of growth and expansion through conglomerate diversification the classic examples is of ITC, a cigarette company diversifying into the hotel industry.

Advantages of Diversification

Companies have increasingly adopted diversification strategy due to the following reasons:

(i) *Better use of its resources.* By adding up related products to its existing product portfolio, a company can more effectively utilize its managerial personnel, marketing network, research and development facilities, etc.

(ii) *Reduce the decline in sales.* By developing new products the sales revenue and earnings can be maintained or even increased. For example, Bajaj Scooters India Ltd. entered in the field of mopeds.

(iii) More competitive with greater resources, more products and higher profits, the diversified firm is more competitive than a single product firm.

(iv) *Minimize risk.* When one line of business faces recession, another line may be in high growth stage. For example, a well-diversified engineering firm like Larsen and Toubro did well even when the engineering industry was facing recession.

(v) Use of cash surplus of one business to finance another business having good potential for growth.

(vi) Economies of scale Diversification adds to size of business which improves the competitiveness of a firm. It offers a lot of economy in operations because common facilities can be used for several products.

Limitations of Diversification

The limitations of diversification are as given below:

(i) Huge funds are required for diversification. The internal savings of the business may not be sufficient to finance growth.

(ii) The functions and responsibilities of top executives increase because of need to handle new product, technology and markets. They may find problems in coordination which may lead to inefficient operations.

(iii) Diversification may involve new technology and new markets and the present staff may face problems in adjusting to this growth pattern.

(iv) Diversification may lead to unknown products and markets leading to more risk.

Modernisation

A firm may use the strategy of modernization to achieve growth. Modernization basically involves upgradation of technology to increase production, to improve quality and to reduce wastages and cost of production. The worn-out and obsolete

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machines and equipment are replaced by the modern machines and equipment. Modernization plans can have the following implications:

(i) A firm may go for modernization at a low pace to maintain its position in the market. Thus, it may be considered as a stability strategy.

(ii) Modernization may be used with full strength to achieve internal growth. Thus, it is used as an internal growth strategy.

Advantages of Modernization

The modernization has following advantages:

(i) Modernization improves the productivity and efficiency of the firm.

(ii) The profitability of the firm goes up because of increased efficiency and reduced wastages.

(iii) It makes available better quality products to the customers.

(iv) The firm becomes more competitive in the long-run because of modernization.

(v) The growth is systematic and does not affect the normal functioning of the firm.

(vi) The workers acquire modern skills because of which their wages go zup.

However, the strategy of modernization can be used only if the firm has adequate capital through accumulated savings or is able to raise capital from different sources for the acquisition of modern plant and machinery.

Modernization will actually serve its purpose only if the workers are adequately trained in the new method of production.

Limitations of Modernization

Modernization has following limitations:

(i) The accumulated savings of the business may not be sufficient to Finance modernization of plant and machinery.

(ii) The responsibilities of top executives would increase because of need to handle new products, technologies and markets.

(iii) The existing staff may face problems in adapting to the new technology.

2.4 VENTURE STRATEGIES

The most successful companies are those that have developed aggressive venture strategies and have made ventures critical components of their strategic and operating

Check Your Progress

1. Define forward integration.
2. What are the intensive growth strategies?
3. What do you mean by improvement strategies?

success. For today's corporations, traditional internal expansions, efficiency improvements and "synergistic" acquisitions are no longer sufficient sources of growth in most industry segments that had grown crowded and hypercompetitive. The new challenge is to search for emerging "white space" opportunities, "new-business creations that would meet the unmet, unserved needs of customers in emerging markets." In ventures, large and midsized companies can discover a source of growth they are striving to achieve. New business creation has become central to achieving strategic and financial objectives of market champions. "Silicon Valley wouldn't exist, if big companies couldn't identify technology and market opportunities and move with speed to capitalize on them", says *Mike Moritz of Sequoia Capital Partners*.

2.4.1 Disruptive Venture and Innovation Strategies

The Disruptive Innovation model from Clayton Christensen is a theory that can be used for describing the impact of new technologies (revolutionary change) on a firm's existence. Clayton Christensen first coined the phrase "disruptive technologies" in 1997, in his book "*The Innovator's Dilemma*: When New Technologies Cause Great Firms to Fail".

He showed that time and again almost all the organizations that have "died" or been displaced from their industries (because of a new paradigm of customer offering) could see the disruption coming, but did nothing until it was too late.

By doing what good companies are supposed to do – cater to their most profitable customers and focus investments where profit margins are most attractive – established industry leaders are on a path of Sustaining Innovations and leave themselves open for disruptive technologies to bury them. This happens because the resource allocation processes of established companies are designed to maximize profits through sustaining innovations, which essentially involve designing better and better mousetraps for existing customers or proven market segments. When Disruptive Innovations (typically cheaper, simpler to use versions of existing products that target low-end or entirely new customers) emerge, established companies are paralyzed. They are almost always motivated to go up-market rather than to defend these new or low-end markets, and ultimately the disruptive innovation improves, steals more market share, and replaces the reigning product.

Companies have two basic options when they seek to build new-growth businesses. They can try to take an existing market from an entrenched competitor with sustaining innovations. Or they can try to take on a competitor with Disruptive Innovations that either create new markets or take root among an incumbent's worst customers. There are two distinct types of Disruptive Innovations. The first type creates a new market by targeting non-consumers. The second competes in the low end of an established market.

Examples of Disruptive Strategic Innovation

Industry	**Strategic Innovation**	**Innovator and Date of Introduction**
General retailing (United States)	Online distribution	Amazon.com: July 1995 (books). June 1998 (music)
Car-rental industry (United States)	Focusing on a different type of customer and operating an extensive network of car-rental offices located in cities, rather than in major airports	Enterprise Rent-A-Car (The company was founded in 1957.)
Computer industry (United States)	Selling computers directly to customers	DELL Computer: 1983
Retail-brokerage industry (United States)	Online trading	Aufhauser & Co.: 1994 ETrade. Charles Schwab: 1996
Retail-brokerage industry (United States)	Operating an extensive network of single-broker offices across the country as separate profit centers	Edward lones: 1972 (the year when the company formally adopted the new business model)
Steel industry (United States)	introduction of minimills (a low-cost production method to make flat-rolled sheet steel — a high-end steel product)	Nucor: 1989 (introduced the world's first continuous, thin-slab casting facility for sheet steel)
Automobile industry (Europe) Used-car business (United States)	Mass-customized cars	Smart car (by Daimler Chrysler): October 1998
Used-car business (United States)	A new retail and distribution method for selling used cars (extensive refurbishing of cars, product guarantees, no-haggle pricing and sophisticated use of in-house financing)	AutoNation USA. carMax: 1996

Banking industry (United Kingdom)	Direct banking • Telephone banking • PC banking • Online banking	First Direct: • October 1989 • May 1996 • summer 1997
General-Insurance industry (United Kingdom)	Direct insurance • Direct motor insurance • Direct home insurance	Direct Line insurance: • April 1985 • Fall 1993
Life insurance and pensions industry (United Kingdom)	Direct life insurance and personal pensions	virgin Direct: June 1996 Ryanair: 1991
Airline industry (Europe)	Low-cost, no-frills, point-to-point airline service	Ryanair: 1991 (routes between united Kingdom and Ireland only) easyJet: November 1995
Retail supermarket industry (United Kingdom)	Home delivery of grocery services Online home delivery of grocery services	Food Ferry. Tele shop: early 1990s (London area only) Tesco Direct: 1998 (now part of Tesco.com. launched in 2000)
Stock exchanges (Europe and North America)	Electronic communications networks (ECNs)	OM Exchange: 1984 (Recently, new ECNs such as instinet. island ECN and optiMarkwere Introduced in European and North American exchanges.)

Source: *MIT Sloan Management Review*

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Revolutionary, Discontinuous and Acquired Growth

Revolution can be described as radical and discontinuous leaps to completely novel offerings, opening up new business and growth trajectories. Revolutionary growth explores new-to-the-world opportunities and creates new business potential. Revolutionary innovation is closely connected with high uncertainty as it addresses a future that doesn't exist yet, but is going to emerge through the innovation itself.

"Revolutionary ideas rely on evolution to survive", says Rieva Lesonsky in a great post on that issue. This important interplay also becomes obvious upon considering the innovation adoption cycle, as discussed by Greg Satell. He writes: When an early innovation comes to market, there will undoubtedly be a small amount of people who are excited about it. After all, it can do things nothing else has been able to do before. That's cool and the "cool crowd" gets it immediately. They are enchanted by their new toy and start advocating it to friends. Adoption increases.

There is, however, a problem. The new product doesn't work very well, it's hard to use and it's expensive as many disruptive innovations tend to be. Many people can't see the point in shelling out big money to buy a product that confuses them, makes them feel stupid and the final product experience doesn't seem worth the effort.

That's when a change in the basis of competition happens. Success begins to become less a matter of features and functions and depends more on the interaction with the user. In other words, less on engineering (in the classical sense of the word) and more on design.

Case Study of Toyota: International Entry Strategies

Toyota is being known world-wide and being accepted as the world's most popular car manufacturer. Wherever we go, not even a single soul did not know what a Toyota is. This is what we called as Toyotaism. But, to accomplish this was not that easy compared to how it sounds. Toyota had to face several issues and problems also had taken multiple actions to solve them. Hiroshi Okuda had identified 3 issues relating to the management of Toyota. Those management issues are; (1) Lag in product planning, (2) Declining market share in Japan, and (3) was behind in overseas expansion. Due to these main issues, Toyota had taken several steps for the manufacturer to survive in its own name in its own country and also to the world outside.

For Toyota to its brand visible, a number of development strategies had been taken by Toyota.

The first stage of Toyota's development strategy is Cross-Nation Space Strategy. It is where Toyota implemented a strategy of marketing its product in Japan and in other nations around the world. It is a strategy of blanketing the

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nations with all of Toyota's product. Manufacturing of products for Toyota started in 1938 where its first plant was built which is the Honsha Plant. It is after 20 years of incorporating that Toyota could construct their second plant which was in the year 1959. Upon incorporating, there were three major strategies being taken to ensure their success. First and foremost was to have high quality auto suppliers. Second, was for Toyota to built affiliates like providing housing and entertainment facilities for its own employees and families. This was because Toyota is making its employees and families as their crucial factors of Toyota's success. And thirdly was webbing Toyota dealers in which they developed on their channel of distribution.

It was up until 1960s that Toyota adopted nation-specific strategies to provide their automobiles throughout the nations. Due to that, Toyota Motor Sales (TMS) had set up a export department for the main reason to pioneer the overseas market. First exporting activities being done by Toyota was after receiving an order from Brazil for 100 units of Model FXL large trucks. As Brazil was a developing country at the moment, it was a golden opportunity for Toyota to introduce its brand name overseas and highly potential to penetrate the automobiles market in Brazil. But, because Brazil eventually had a poor infrastructure, Toyota grabbed this opportunity and marketed its Four-wheeled-Drive (4WD) Land Cruiser as this vehicle is able to withstand the poor road conditions of Brazil. Starting from this point, Toyota had Ipiranga, Brazil, and had the first-mover advantage to meet the demand locally. This enabled Toyota the chance to export its product to other Latin America nations like Colombia, Costa Rica, Venezuela, and Puerto Rico. For South-East Asia, the first export was to Thailand which is in 1950s to 1960s. The action of Toyota Motor Sales to gain market in Thailand has enabled Toyota to receive for the second time the advantage as the first-mover in the Thailand's local automobiles industry. And as for Middle-East, it was in 1947 that the first exporting activity being done by Toyota which was to the King of Egypt. During this period also Toyota had already started exporting its products to gain market in the automobiles industry in China. Toyota hesitated in exporting its products to the Europe at first because Europe is known as the world's most sophisticated

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market. So, Toyota had no intention to do any transaction with Europe during that particular period. But, a European representative had come all the way to Tokyo asking Toyota to export its automobiles. As a result, Toyota had export its model, Crown and Land Cruisers to Denmark and Ethiopia.

After the expansion of products to Latin America, Toyota had expanded its automobiles to the North America Continent especially United States of America. This is where the second stage of Toyota's Development Strategies took place. In this stage, Toyota implemented the Cross-Continent Space Strategy by establishing 5 assembly factories. However, due to the weather condition in the USA, it brought some difficulties to Toyota in promoting its vehicles. Thus, Toyota started to export the new Corona and Corolla to Canada. Another core factor that influenced Toyota to expand its cars to United States is due to the existence of large port cities in the West Coast Region that were crucial for Toyota in distributing its products to the USA. Toyota Crown was the first model that arrived in United States, specifically Los Angeles. After a while, Toyota's cars were being condemned as they vibrates badly and were easily overheated while driving all the way on United State's highway. To replace the failure of Toyota Crown, Toyota had produced another improved car, Tiara, to the consumers of the USA. But, the Tiara also had not fulfilled the demand of the consumers and Toyota was having serious problems in selling its cars. From this, Toyota had learned its lesson–motor vehicles that are not competitive in performance, price, and brand names had no chances at all of being accepted by the markets. Until then, Toyota had been striving eminently to develop its new international product of the new Corona.

As for the development on the automobiles market in Thailand, Toyota had made a joint-venture with one of the car manufacturer of Thailand to become Toyota Motor Thailand. This later enabled Toyota to establish its own assembly plant in Thailand where it provided multiple job opportunities to the locals indirectly.

The expansion of Toyota's products continued to the West Region, then to the Central Region and lastly to the East Region of United States especially to New York City. This expansion process was successfully carried out with one of the factor of establishing second wholly-owned subsidiary of Toyota which was located in Brazil. The expansion lead to a success when Toyota Do Brazil (TDB) merged with Toyota of Argentina to export Toyota's automobiles to Latin America and Central America. As Toyota was backed with high political influence due to its several contributions to the local politician during the election years, this guaranteed the successfulness of Toyota to the world generally.

Approaching 1970s, two major developments occurred to the Toyota manufacturer. First was the oil crisis. As the price of oil increased tremendously during the period, Toyota's cars were highly demanded as Toyota promoted

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a reasonable price on its cars. Another development which occurred was the appreciation of Japanese currency. For this reason, Toyota had to its manufacturing of high grade small cars to sporty cars. The examples are Celica and multi-use pick-up trucks.

The next strategy implemented was the establishment of the product plants. The main factor that leads Toyota to put this strategy into action was due to the oil crisis that eventually increased the number of units sold of Toyota's products. In January 1982, Toyota Motor Company (TMC) and Toyota Motor Sales (TMS) combined to form Toyota Motor Corporation. This restructuring and merger initiative was to grasp the capabilities of Toyota to the fullest. Toyota had been in a joint venture with General Motors (GM) with the reason that a voluntary restriction on Japanese exports to USA was initiated in 1981. This was after an action to joint-venture with Ford Motors failed. As a result, facilities of its own by Toyota being able to set up in the United States of America. The advantages towards this plan were to reduce risks and to accumulate experience in the local production. In this strategy also, Toyota decides to build production plants in developing countries and targeting places in urban city like the Shenyang and Tianjin in China. In 1998, Toyota acquired Tianjin Motor Group to become Tianjin Toyota Motor Engine where they were in charge of supplying Daihatsu and later exporting to Japan.

Up until 1995, Toyota implemented its third stage of development strategy which stressed on the globalization strategy. New global business plans were being initiated with the efforts to further localize (overseas) and increase imports of automobiles produced overseas (in Japan). One of the strategy made was the New Sienna which was made by the manufacturer of Toyota in Kentucky, USA. Other globalization plans that were made was the publication of supplier's guide with the intention to aim at providing the first timer suppliers a greater understanding on Toyota's purchasing activities and giving outlines on how to sell supplies to Toyota. In 1997, Toyota made another plan which provide internet services where it makes overseas supplier request for auto parts easier. As up to March 1998, Toyota had already had 34 overseas subsidiaries and affiliates throughout the world, 150 distributors in 5 continents and 25 countries. This indicates that Toyota has successfully entered the foreign market.

One key factor that lead Toyota to be able to expand effectively is due to the active role it of a good corporate citizen. Toyota is actively donating to social and cultural activities, exchange students programs and traffic safety campaign. This global business strategy has been a major plan for Toyota to keep consumers driving its products from generation to generation.

In short, all of the above strategies created by Toyota can be explained as; first, Toyota started to target the international market by focusing on the national level, then the global level. Ways of making its products known throughout the world are through exporting at first, joint ventures and later towards the

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establishing of Toyota's own subsidiaries to manufacture its products in the host country. After creating potential hopes on the 5 continents' market, Toyota began to be part of the local communities' choice of automobiles in their own country.

Source: *Scribd.com*

2.4.2 Blue Ocean Strategy

Blue Ocean Strategy (BOS) is the result of a decade-long study of 150 strategic moves spanning more than 30 industries over 100 years (1880-2000) by authors Kim, W. C., Mauborgne, R. BOS is the simultaneous pursuit of differentiation and low cost. The aim of BOS is not to out-perform the competition in the existing industry, but to create new market space or a blue ocean, thereby making the competition irrelevant. BOS offers a set of methodologies and tools to create new market space. While innovation has been seen as a random/experimental process where entrepreneurs and spin-offs are the primary drivers – as argued by Schumpeter and his followers – BOS offers systematic and reproducible methodologies and processes in pursuit of innovation by both new and existing firms. BOS frameworks and tools include: strategy canvas, value curve, four actions framework, six paths, buyer experience cycle, buyer utility map, and blue ocean idea index. These frameworks and tools are designed to be visual in order to not only effectively build the collective wisdom of the company but also to effectively execute through easy communication. BOS covers both strategy formulation and strategy execution. The three key conceptual building blocks of BOS are: value innovation, tipping point leadership, and fair process.

2.4.3 Ansoff's Model

To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoff's matrix is shown below:

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Fig. 2.1: Ansoff Matrix

The first stage of Toyota's development strategy is Cross-Nation Space Strategy. It is where Toyota implemented a strategy of marketing its product in Japan and in other nations around the world. It is a strategy of blanketing the nations with all Toyota's product. Manufacturing of product for Toyota started in 1938 where its first plant was built which is the Honsha Plant. It is after 20 years of incorporating that Toyota could construct their second plant which was in the year 1959. Upon

incorporating, there were three major strategies being taken to ensure their success. First and foremost was to have high quality auto suppliers. Second, was for Toyota to built affiliates like providing housing and entertainment facilities for its own employees and families. This was because Toyota is making its employees and families as their crucial factors of Toyota's success. And thirdly was webbing Toyota dealers in which they developed on their channel of distribution.

Market Penetration

When a firm believes that there exist ample opportunities by aggressively exploiting its current products and current markets, it pursues market penetration approach. Market penetration involves achieving growth through existing products in existing markets and a firm can achieve this by:

- motivating the existing customers to buy its product more frequently and in larger quantities. Market penetration strategy generally focuses on changing the infrequent users of the firm's products or services to frequent users and frequent users to heavy users. Typical schemes used for this purpose are volume discounts, bonus cards, price promotion, heavy advertising, regular publicity, wider distribution and obviously through retention of customers by means of an effective customer relationship management.
- increasing its efforts to attract its competitors' customers. For this purpose, the firm must develop significant competitive advantages. Attractive product design, high product quality, attractive prices, stronger advertising, and wider distribution can assist an enterprise in gaining lead over its competitors. All these require heavy investment, which only firms with substantial resources, can afford. Firms less endowed may search for niche segments. Many small manufacturers, for instance, survive by seeking out and cultivating profitable niches in the market. They may also grow by developing highly specialized and unique skills to cater to a small segment of exclusive customers with special requirements.
- targeting new customers in its current markets. Price concessions, better customer service, increasing publicity and other techniques can be useful in this effort.

In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. While following market penetration strategy, the firm continues to operate in the same markets offering the same products. Growth is achieved by increasing its market share with existing products. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued, if the firm is to continue to grow. Unless there is an intrinsic growth in its current market, this strategy necessarily entails snatching business away from competitors. The market penetration strategy is the least risky since it leverages many of the firm's existing

resources and capabilities. Another advantage of this strategy is that it does not require additional investment for developing new products.

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Market Development Strategy

Market Development strategy tries to achieve growth by introducing existing products in new markets. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment or when new markets offer better growth prospects compared to the existing ones. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. This is because managers do not normally possess sound knowledge of new markets, which may result in inaccurate market assessment and wrong marketing decisions. In market development approach, a firm seeks to increase its sales by taking its product into new markets. The two possible methods of implementing market development strategy are, (a) the firm can move its present product into new geographical areas. This is done by increasing its sales force, appointing new channel partners, sales agents or manufacturing representatives and by franchising its operation; or (b) the firm can expand sales by attracting new market segments. Making minor modifications in the existing products that appeal to new segments can do the trick.

Product Development Strategy

Expansion through product development involves development of new or improved products for its current markets. The firm remains in its present markets but develops new products for these markets. Growth will accrue if the new products yield additional sales and market share. This strategy is likely to succeed for products that have low brand loyalty and/or short product life cycles. A product development strategy may also be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Although the firm operates in familiar markets, product development strategy carries more risk than simply attempting to increase market share since there are inherent risks normally associated with new product development. The three possible ways of implementing the product development strategy are:

- The company can expand sales through developing new products.
- The company can create different or improved versions of the current products.
- The company can make necessary changes in its existing products to suit the different likes and dislikes of the customers.

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Diversification

Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, this quadrant of the matrix has been referred to by some as the "suicide cell". However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

2.4.4 McKinsey Model

General Electric, assisted by McKinsey, developed a strategic planning grid which attempted to correct some of the limitations of the BCG matrix approach. First the GE grid uses multiple factors to assess industry attractiveness and business strength, rather than the single measures (market share and market growth, respectively) employed by the BCG matrix. Second, GE expanded the matrix from four cells to nine, replacing the high/low axis with a high/medium/low one to draw finer distinctions between business portfolio positions. To determine which axis a business unit falls under, the company's business unit is rated on multiple sets of strategic factors within each axis of the grid.

The GE-Mckinsey Matrix is illustrated in Fig. 2.2:

		Business Unit Strength		
		High	**Medium**	**Low**
Industry Attractiveness	**High**			
	Medium			
	Low			

Fig. 2.2: GE / McKinsey Matrix

Industry attractiveness and business unit strength are calculated by first identifying the criteria for each, determining the value of each parameter in the criteria, and multiplying that value by a weighting factor. The result is a quantitative measure of industry attractiveness and the business unit's relative performance in that industry.

Industry Attractiveness

The vertical axis of the GE / McKinsey matrix is industry attractiveness, which is determined by factors such as the following:

- Market growth rate

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- Market size
- Demand variability
- Industry profitability
- Industry rivalry
- Global opportunities
- Macro-environmental factors (PEST)

Each factor is assigned a weighting that is appropriate for the industry. The industry attractiveness then is calculated as follows:

$$\begin{aligned}\text{Industry attractivenss} &= (\text{factor value } 1 \times \text{factor weighting } 1) \\ &+ \text{factor value } 2 \times \text{factor weighting } 2) \\ &+ (\text{factor value N} \times \text{factor weighting N})\end{aligned}$$

Business Unit Strength

The horizontal axis of the GE / McKinsey matrix is the strength of the business unit. Some factors that can be used to determine business unit strength include:

- Market share
- Growth in market share
- Brand equity
- Distribution channel access
- Production capacity
- Profit margins relative to competitors.

The business unit strength index can be calculated by multiplying the estimated value of each factor by the factor's weighting, as done for industry attractiveness.

2.4.5 SWOT/TOWS Model

SWOT stands for Strengths, Weaknesses, Opportunites and Threats. A SWOT analysis summarizes the key issues from the external environment and the internal capabilities of an organization those which become critical for strategy development. The aim through this is to identify the extent to which the strengths and weaknesses are relevant to and capable of dealing with changes in the business environment. It also reflects whether there are opportunities to exploit further the cometencies of the organization.

Strengths

Strength is a resource, skill, or other advantage in relation to the competition and the needs of markets a firm serves or anticipates serving. Strength is a distinctive competence that affords the firm a comparative advantage in the market place. Financial resources, image, market leadership and buyer-supplier relations are examples.

Weaknesses

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A weakness is a limitation or deficiency in resources, skills, and capabilities that seriously impedes effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image could be sources of weakness.

Strengths and weaknesses can be identified by careful analysis of the firm's activities.

A few examples follow:

(a) Source of profit

- If the bulk of the profit comes from a single product, that in itself is a symptom of weakness deserving further analysis: What is its status in the life cycle? What is the status of competition? What is the status of industry sale? Product quality? Is the market share currently enjoyed commensurate with quality, competition, price status? Is there scope for further growth in sales through product development?
- What is the scope for development of other profit-yielding products?
- Is the technology continuing to be up-to-date or is there a risk, of better technology appearing in the marketplace in the near future? What is the danger of substitution?
- Is the product itself in any danger of becoming obsolete or out of style in the near future?

(b) Risks

The analysis of the source of profits invariably exposes the risks looming ahead. These may be:

- For the product, the dangers of obsolescence;
- the danger of being priced out because of quality, cost, and backdated technology;
- the danger of substitution.
- For the market, the style and desirability changing; the danger of new competition coming in; the market itself reaching maturity or its decaying stale, etc.

Opportunities

An opportunity is a major favourable situation in the firm's environment. Key trends represent one source of opportunity. The identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technological changes, and improved buyer and/or supplier relationships could represent opportunities for the firm.

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Threats

A threat is a major unfavourable situation in the firm's environment. It is a key impediment to the firm's current and/or desired future position. The entrance of a new competitor, slow market growth, increased bargaining power of key buyers or suppliers, major technological change, and changing regulations could represent major threats to the firm's future success.

The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix

The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix is an important matching tool that helps managers develop four types of strategies: SO Strategies, WO strategies, ST Strategies, and WT Strategies. Matching key external and internal factors is the most difficult part of developing a TOWS Matrix and requires good judgement, and there is no one best set of matches. Note in figure 2.3 that the first, second, third, and fourth strategies are SO, WO, ST, and WT Strategies respectively. SO Strategies use a firm's internal strengths to take advantage of external opportunities. All managers would like their organizations to be in a position where internal strengths can be used to take advantage of trends and events in the environment. For example, Mercedes Benz, with its technical know-how and reputation for quality (internal strengths), could take advantage of the increasing demand for luxury cars (external opportunity) by building a new manufacturing plant (SO Strategy). Organizations generally will pursue WO, ST, or WT Strategies in order to get into a situation where they can apply SO Strategies. When a firm has major weaknesses, it will strive to overcome them, making them strengths. When an organization faces major threats, it will seek to avoid them in order to concentrate on opportunities. WO Strategies aim at improving internal weaknesses by taking advantage of external opportunities. Sometimes key external opportunities exist, but a firm has internal weaknesses that prevent it from exploiting those opportunities. For example, there may be a high demand for electronic devices to control the amount and timing of fuel injection in automobile engines (opportunity), but a certain auto parts manufacturer may lack the technology required for producing these devices (weakness). One possible WO Strategy would be to acquire this technology by forming a joint venture with a firm having competency in this area. An alternative WO strategy would be to hire and train people with the required technical capabilities.

ST Strategies use a firm's strengths to avoid or reduce the impact of external threats. This does not mean that a strong organization should always meet threats in the external environment head-on. General Motors found this out in the 1960s when Ralph Nader (an external threat) exposed safety hazards of the Corvair automobile. GM used its strength (size and influence) to ridicule Nader, and the direct confrontation caused more problems than expected. In retrospect, this ST Strategy was probably inappropriate for GM at the time.

WT Strategies are defensive tactics directed at reducing internal weaknesses and avoiding environmental threats. An organization faced with numerous external

threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to fight for its survival, merge, retrench, declare bankruptcy, or choose liquidation.

Note that a TOWS Matrix is composed of nine cells. As shown, there are four key factor cells, four strategy cells, and one cell that is always left blank (the upper left cell). The four strategy cells, labeled SO, WO, ST, and WT, are developed after completing four key factor cells, labeled S, W, O, and T. There are eight steps involved in constructing a TOWS Matrix:

	Always leave blank	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	STRENGTHS-S List strengths	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	WEAKNESSES-W List weaknesses
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	OPPORTUNITIES-O List opportunities	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	SO STRATEGIES Use strengths to take advantage of opportunities	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	WO STRATEGIES Overcome weaknesses by taking advantage of opportunities
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	STRENGTHS-S List threats	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	ST STRATEGIES Use strengths to avoid threats	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	WT STRATEGIES Minimize weaknesses and avoid threats

Fig. 2.3: TOWS Matrix

1. List the firm's key external opportunities.
2. List the firm's key external threats.

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3. List the firm's key internal strengths
4. List the firm's key internal weaknesses.
5. Match internal strengths with external opportunities and record the resultant SO Strategies in the appropriate cell.
6. Match internal weaknesses with external opportunities and record the resultant WO strategies.
7. Match internal strengths with external threats and record the resultant ST Strategies.
8. Match internal weaknesses with external threats and record the resultant WT Strategies.

Some other examples of SO, WO, ST, and WT Strategies are given as follows:

1. A strong financial position (internal strength) coupled with unsaturated foreign markets (external opportunities) could suggest market development to be an appropriate SO Strategy.
2. A lack of technical expertise (internal weakness) coupled with a strong demand for computer services (external opportunity) could suggest the WO Strategy of acquiring a high-tech computer company.
3. A strong distribution system (internal strength) coupled with intense government deregulation (external threat) could suggest concentric diversification to be a desirable ST Strategy.
4. Poor product quality (internal weakness) coupled with unreliable suppliers (external threat) could suggest backward integration to be a feasible WT Strategy.

The purpose of each Stage 2 matching tool is to generate feasible alternative strategies, not to select or determine which strategies are best. Not all of the strategies developed in the TOWS Matrix therefore will be selected for implementation.

2.4.6 3 Levels of Enterprise Strategies for Growth

Strategic management deals with the issues, concepts, theories approaches and action choices related to an organization's interaction with the external environment. Strategy, in general, refers to how a given objective will be achieved. Strategy, therefore, is mainly concerned with the relationships between ends and means, that is, between the results we seek and the resources at our disposal. For the most part, strategy is concerned with deploying the resources at your disposal whereas tactics is concerned with employing them. Together, strategy and tactics bridge the gap between ends and means. Some organizations are groups of different business and functional units, each of them must be having its own set of goals, which may not necessarily be same as the goals of the corporate headquarters looking after the interests of the entire organization. Since the goals are different and the means to achieve them are different, strategies are likely to be different. This understanding has

led to the hierarchical division of strategy at two levels: a business-level (competitive) strategy and a company-wide strategy (corporate strategy) (Porter, 1987). In addition to these strategies, many authors also mention functional strategies, practiced by the functional units of a business unit, as another level of strategy.

Corporate Strategies

These are concerned with the broad, long-term questions of "what businesses are we in, and what do we want to do with these businesses?" The corporate strategy sets the overall direction the organization will follow. It matters whether a firm is engaged in one or several businesses. This will influence the overall strategic direction, what corporate strategy is followed, and how that strategy is implemented and managed. Corporate strategies vary from drastic retrenchment through aggressive growth. Top management need to carefully assess the environment before choosing the fundamental strategies the organization will use to achieve the corporate objectives.

Competitive Strategies

Those decisions that determine how the firm will compete in a specific business or industry. This involves deciding how the company will compete within each line of business or strategic business unit (SBU). Competitive strategies include being a low-cost leader, differentiator, or focuser. Formulating a specific competitive strategy requires understanding the competitive forces that determine how intense the competitive forces are and how best to compete.

Functional Strategies

Also called operational strategies, are the short-term (less than one year), goal-directed decisions and actions of the organization's various functional departments. These are more localized and shorter-horizon strategies and deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity. Functional strategies identify the basic courses of action that each functional department in a strategic business unit will pursue to contribute to the attainment of its goals. In a nutshell, corporate-level strategy identifies the portfolio of businesses that in total will comprise the corporation and the ways in which these businesses will relate. The competitive strategy identifies how to build and strengthen the business's long-term competitive position in the marketplace while the functional strategies identify the basic courses of action that each department will pursue to contribute to the attainment of its goals.

2.4.7 Porters Generic Competitive Strategies

Michael Porter (Harvard Business School Management Researcher) designed various vital frameworks for developing an organization's strategy. One of the most renowned among managers making strategic decisions is the five competitive forces model

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that determines industry structure. According to Porter, the nature of competition in any industry is personified in the following five forces:

1. Threat of new potential entrants
2. Threat of substitute product/services
3. Bargaining power of suppliers
4. Bargaining power of buyers
5. Rivalry among current competitors

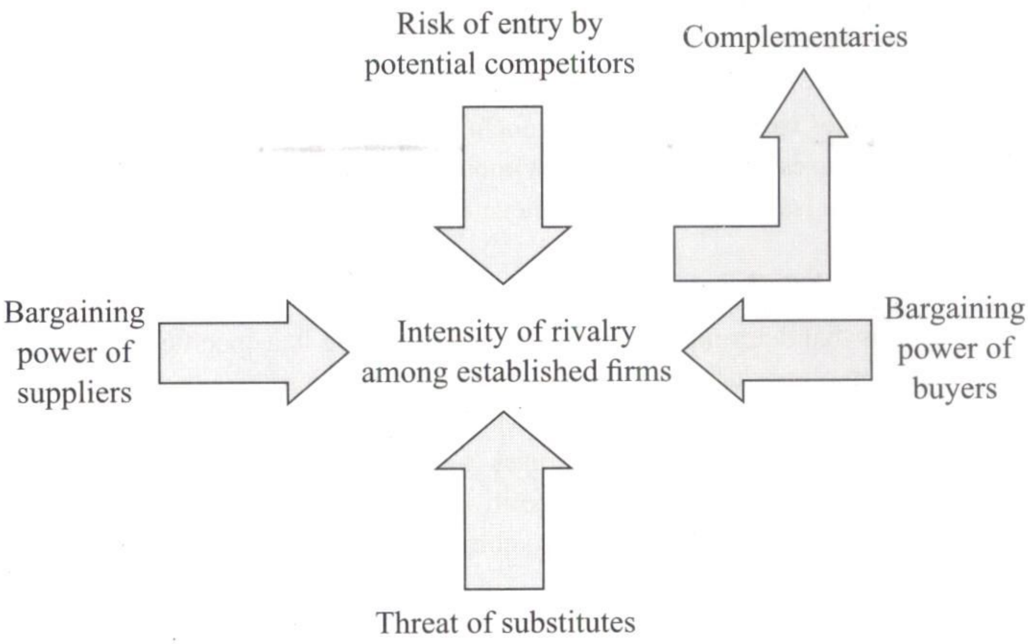

Fig. 2.4: Porter's Five Forces model

The five forces mentioned above are very significant from point of view of strategy formulation. The potential of these forces differs from industry to industry. These forces jointly determine the profitability of industry because they shape the prices which can be charged, the costs which can be borne, and the investment required to compete in the industry. Before making strategic decisions, the managers should use the five forces framework to determine the competitive structure of industry.

Let's discuss the five factors of Porter's model in detail:

1. **Risk of entry by potential competitors:** Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are-
   - Economies of scale

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- Brand loyalty
- Government Regulation
- Customer Switching Costs
- Absolute Cost Advantage
- Ease in distribution
- Strong Capital base

2. **Rivalry among current competitors:** Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:
    - Extent of exit barriers
    - Amount of fixed cost
    - Competitive structure of industry
    - Presence of global customers
    - Absence of switching costs
    - Growth Rate of industry
    - Demand conditions
3. **Bargaining Power of Buyers:** Buyers refer to the customers who finally consume the product or the firms who distribute the industry's product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities. They have full information about the product and the market. They emphasize upon quality products. They pose credible threat of backward integration. In this way, they are regarded as a threat.
4. **Bargaining Power of Suppliers:** Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs (labour, raw materials, services, etc.) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry suppliers products have a few substitutes. Strong suppliers' products are unique. They have high switching cost. Their product is an important input to buyer's product. They pose credible threat of forward integration. Buyers are not significant to strong suppliers. In this way, they are regarded as a threat.
5. **Threat of Substitute products:** Substitute products refer to the products having ability of satisfying customer's needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by putting a setting a limit on the price that firms can charge for their product in an industry. Lesser the

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number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal).

The power of Porter's five forces varies from industry-to-industry. Whatever be the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in industry. This five forces model also help in making strategic decisions as it is used by the managers to determine industry's competitive structure.

The following are the key competitive strategies identified by the Porter:

1. Cost Leadership Strategy

This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market.

Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have the following internal strengths:

- Access to the capital required making a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.
- Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
- High level of expertise in manufacturing process engineering.
- Efficient distribution channels.

Each generic strategy has its risks, including the low-cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

2. Differentiation Strategies

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it.

The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily.

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Firms that succeed in a differentiation strategy often have the following internal strengths:

- Access to leading scientific research.
- Highly skilled and creative product development team.
- Strong sales team with the ability to successfully communicate the perceived strengths of the product.
- Corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

3. Focus Strategies

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well.

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

A Combination of Generic Strategies - Stuck in the Middle?

These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Michael Porter argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more

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than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage.

Porter argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle."

However, there exists a viewpoint that a single generic strategy is not always best because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

Generic Strategies and Industry Forces

These generic strategies each have attributes that can serve to defend against competitive forces. The following table compares some characteristics of the generic strategies in the context of the Porter's five forces.

Table 2.1: Generic Strategies and Industry Forces

Industry Force	**Generic Strategies**		
	Cost Leadership	**Differentiation**	**Focus**
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.

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Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products and core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

2.5 CHOOSING THE STRATEGIC GROWTH CHOICE: CONSIDERATION OF INTERNAL AND EXTERNAL FACTOR

Global competition and rapid technological advancements are creating new business management models, such as a geographically dispersed work force, a flattened organizational structure, and strategic partnering among customers, vendors, suppliers, and even competitors. Companies of all sizes are developing work teams that communicate and collaborate electronically instead of around a conference table or by the water cooler. The virtual workplace—in which there is significantly less human interaction—brings new challenges in the areas of protection of privacy, confidentiality, and copyright laws.

Given these rapidly moving changes in our marketplace, the challenge for the entrepreneurial company is *how* and *when* to grow. And this leads to other major questions that can be difficult to answer. What strategies should be used to facilitate growth? How do you know whether these strategies are appropriate for your business? Are there problems with your business structure that need resolving before you can implement the growth strategy selected? How can you build on your strengths and compensate for your weaknesses? How might the growth strategy selected present new risks or make you vulnerable and, if so, to whom? Is this the right *time* to grow? That is, have you put a proper foundation for growth in place? Is capital available to fuel growth? Are market conditions ripe for growth opportunities?

Setting the Stage for Growth: Internal Factors

Before you can prepare your company for growth, you need to analyze its strengths and weaknesses. Looking for what's working well serves to concentrate your efforts where you have the best chance of success. Looking for strengths enables you to also spot the weaknesses. Start with these internal areas:

- **Costs and revenue:** Examine every part of your business. Is revenue rising or falling? How about profit margin? Which divisions or departments stand out? Why? Do you enjoy a strong positive cash flow?

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Check Your Progress

State Whether the Following Statements are True or False

4. Market penetration strategy tries to achieve growth by introducing existing products in new markets.
5. Expansion through product development involves development of new or improved products for its current markets.
6. The competitive strategy sets the overall direction the organization will follow.
7. Formulating a specific competitive strategy requires understanding the competitive forces that determine how intense the competitive forces are and how best to compete.
8. A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition.

- **Personnel:** Do certain employees show exceptional skills or produce outstanding results? Where in the company is the strongest management, organization and planning? Do you have the talent on staff to handle anticipated growth, or would you have to hire new personnel?
- **Operations:** Are the areas that seem to be trouble-free functioning with little supervision and always delivering results? How do the managers in these areas achieve such consistent results?
- **Philosophy or mission:** Do you have a written statement describing your company's philosophy or mission? Does it define the essence of your business exactly so that you know which kinds of activities fit to your company's goals and which don't? Are you diluting your resources by engaging in any activities outside your mission? Have you developed a set of core values, and have your employees embraced those values?

Setting the Stage for Growth: External Factors

Once you've sized up your business internally, take a long and careful look at the external factors that should reveal whether you are in a position to take advantage of current business trends and cycles. These include the following:

- **Your market:** Is your market share—your company's percentage of estimated total business available—increasing or decreasing? Is your marketing strategy based on careful research or on instinct and hunches? Is your customer or client base shrinking?
- **Your competition:** Do you know exactly who your competitors are, and where they pose the largest threat? Which part of your business is most vulnerable to competition and which is least vulnerable? Are some parts of your market becoming crowded with competitors?
- **Economic climate:** Are changes in economic conditions—interest rates, inflation, housing starts, industry earnings—likely to affect your company? Do you make efforts to stay on top of things so that you can anticipate changes in the marketplace, or are you often surprised by developments that affect your company?

2.6 SUMMARY

- The best competitive business strategy is the one that will allow your company to experience solid growth.
- Growth is a strategic thrust consisting of many ongoing actions, occurring at both group and divisional levels. Examples of actions include areas of service and product innovation, acquisitions in developing markets and social and community leadership.

- Improvement strategies involve raising the market share, sales revenue and profit of the present product or services.
- When an organization starts making new products that serve its own needs vertical integration takes place.
- When an organization takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration.
- The most successful companies are those that have developed aggressive venture strategies and have made ventures critical components of their strategic and operating success.
- The Disruptive Innovation model from Clayton Christensen is a theory that can be used for describing the impact of new technologies (revolutionary change) on a firm's existence.
- The aim of BOS is not to out-perform the competition in the existing industry, but to create new market space or a blue ocean, thereby making the competition irrelevant. BOS offers a set of methodologies and tools to create new market space.
- To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers).
- General Electric, assisted by McKinsey, developed a strategic planning grid which attempted to correct some of the limitations of the BCG matrix approach.
- A SWOT analysis summarizes the key issues from the external environment and the internal capabilities of an organization those which become critical for strategy development.
- The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix is an important matching tool that helps managers develop four types of strategies: SO Strategies, WO strategies, ST Strategies, and WT Strategies.
- Michael Porter (Harvard Business School Management Researcher) designed various vital frameworks for developing an organization's strategy. One of the most renowned among managers making strategic decisions is the five competitive forces model that determines industry structure.

2.7 KEY TERMS

- **Backward integration:** Backward integration means moving back to the source of raw materials while forward integration moves the organization nearer to the ultimate customer.

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- **Forward integration:** Forward integration means the firm entering into the business of distributing or selling its present products.
- **Market Penetration:** It involves selling more products to the same market by focusing intensely on existing markets with its present products, increasing usage by existing customers and increasing market share and restructures a mature market by driving out competitors e.g., Low pricing strategies
- **SWOT analysis:** A SWOT analysis summarizes the key issues from the external environment and the internal capabilities of an organization those which become critical for strategy development.
- **Corporate strategy:** The corporate strategy sets the overall direction the organization will follow.
- **Differentiation strategy:** A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition.
- **Focus strategy:** The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation.

2.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Forward integration means the firm entering into the business of distributing or selling its present products.
2. Intensive growth strategy or expansion involves raising the market share, sales revenue and profit of the present product or services.
3. Improvement strategies involve raising the market share, sales revenue and profit of the present product or services.
4. False
5. True
6. False
7. True
8. True

2.9 QUESTIONS AND EXERCISES

Short Answer Questions

1. Define strategy.
2. What are the strategic thrusts for growth?

3. What is vertical and horizontal growth?
4. Define organic growth.
5. What do you mean by disruptive ventures and innovation strategies?
6. Write a short note on SWOT analysis.
7. What are the key factors affecting the decision of choosing the strategic growth choices?

Long Answer Questions

1. What are the key improvement strategies of business growth?
2. Discuss the meaning and nature of evolutionary and continuous growth.
3. What are the venture strategies?
4. Discuss the nature and scope of Blue Ocean Strategy.
5. Write a detailed note on Ansoff's model.
6. What are the key elements of SWOT/TOWS model?
7. Discuss the Porter's generic competitive strategies.

UNIT 3 STAGING GROWTH

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Structure

3.0 INTRODUCTION

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As we discussed in the previous units the '**Growth Strategy**' refers to a strategic plan formulated and implemented for expanding firm's business. For smaller businesses, growth plans are especially important because these businesses get easily affected even by smallest changes in the marketplace. Changes in customers, new moves by competitors, or fluctuations in the overall business environment can negatively impact their cash flow in a very short time frame. Negative impact on cash flow, if not projected and adjusted for, can force them to shut down. That is why they need to plan for their future. Small entrepreneurs generally feel that strategic planning is for large business houses; but it is very necessary for small and medium enterprises. Strategic Planning gives a formal direction to the business. Strategic planning is necessary to take care of the additional efforts and resources required for faster growth.

How to grow is a critical question facing all managers. When the core market is growing fast or the company has a big advantage over competitors and can gain share, growth is easy. However, when the core market starts to mature, when competitors have established positions and there are few opportunities to create additional advantage, growth becomes difficult. At this point managers start to search for new growth: new products that can sell to existing customers, new customers that appreciate some of the company's existing skills or completely new business areas.

3.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Describe the process of staging growth
- Identify the key stages of developing growth strategy
- Discuss some related concepts like competitive compensation programme, supportive culture, performance decision-making, full delegation and accountability etc.

3.2 ORGANIZING FOR GROWTH

Some of the elements you need to consider in developing successful growth strategies include:

- **Stage of Growth:** You need to understand and be able to define the particular stage of development of your organization and what challenges exist as a result. Organizations can go through 5 distinct stages of growth and each has its challenges and potential crises.

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- **Planning:** Doing your homework and understanding planning is not just developing mission and vision statements and preparing a budget. Your planning needs can include any of the following: Strategic, Annual Business Plan/Budget, Department or Function, Marketing, Sales, Staffing/Organization, Succession, Resource, Career Development and Merger/Acquisition.
- **Alignment of Critical Success Factors:** You need to be able to align your culture, organization structure and strategic goals to optimize your chances for success. This is key and not always easy to do.
- **Competencies:** You will have to determine if you have the requisite competencies within your organization to achieve your strategic objectives, and be able to develop plans to obtain the missing ones.
- **Performance Management:** You will need to be able to put an effective performance management system with measureable goals tied to your strategic goals in place.
- **Systems and Controls:** You need to insure that you have the proper systems and controls in place they include necessary automated tools, at the same time, provide the controls needed to effectively manage activities. If your business plans include driving change, you need an effective change management process in place.
- **Compensation:** Your compensation programs need to be set at a competitive level and you need to insure that your compensation strategy is aligned with your business goals.
- **Communications:** You need to be effectively and continually communicating to your plans, mission and vision. The best developed plans can quickly go away, if they are not regularly reinforced and in a manner that gets employees on board with an understanding of their responsibilities for achieving the established goals.

3.3 INERTIA ESCAPE

Inertia is a word in use in Physics associated generally with matter and movement. Sir Issac Newton's laws of motion in Physics dealt with inertia, that is absence of change that is static things remaining statics and kinetic things remaining at the same kinetic status. An 'object at rest tends to stay at rest' is inertia of one kind. An 'object in motion tends to stay in motion at the same speed and direction', is another kind of inertia. We may take the concept to organizations as well. An organization just gone unmoving like a aground or stuck ship and another just moving at the same pace and direction(s) without change, are examples of organizational inertia. A growing organization must avoid organizational inertia, that is a tendency of getting resigned to a state of being in perpetual stagnancy blaming fate or environment, and another

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tendency to feel complacent after achieving something good, but attempting nothing to go further. Both are not good for organizations interested in continuous growth. Any organization in either of the situations is in the grip of 'organizational inertia'. An great escape, 'inertia- escape' is very much needed here to make the organization moving or growing continuously. There may be forces maintaining the inertia and opposing 'inertia-escape' as well.

Types of Inertia

Organizations are naturally constrained by insight, action and psychologically based inertia. Proactive behavior is often thwarted by these barriers to change.

Insight Inertia: Insight inertia is an interruption to the organization learning cycle. Management may not observe and interpret cues from the external (or internal) environment in time to determine and adjust organizational behavior to meet environmental, marketplace and internally driven demands for change. Organizational members are not able to make sense of the environment or to explain why certain changes happened at all. Result is the organization is in the grip of 'inertia' without any clue of escape or any 'escape velocity'.

Action Inertia: Action inertia appears when managerial responses to environmental activity are too slow or the information gathered is insufficient to guide taking informed actions to beneficial to the organization. In contrast to insight inertia, action inertia appears after managerial observations of the external and internal environments are gathered and environmental scanning ceases. Something has been learned that is fairly accurate and informative and it guides management decision making but the response is slow, incomplete, ineffective or otherwise deficient. Management drops the ball. Half measures may be poorly conceived and designed and marginally implemented. Failures sometimes seem to be an option.

Psychological Inertia: Organizational resistance to growth and change often translates into psychological inertia. Members of organizations are often notoriously resistant to growth talks or growth attempts regardless of how needed is growth. Fear, anger and loss are very frequently the accompanying emotions. Polarizing us versus them mentalities may emerge fuelled by psychological splitting and projection creating a black and white all good, all bad world view. Management and those advocating growth initiatives may come to be seen and experienced as bad individuals worthy of being resisted and even destroyed in terms of undermining their competencies and skills such as withholding or manipulating information and resisting or blocking their ability to act.

Signs of Organizational Inertia

Leaders who are keen to get things done would do well to check if their organizations are afflicted with these inertia factors. The following are the signs of such inertia.

(i) *The product 'strategy' consists of PR statements only*: After a whole load of analysis, the decision is an incremental juggling of feature sets and

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reprioritization. All this delivered with a significant Public Relations (PR) buzz. Speak to a cross section of people on the ground to see if they are enthused by the direction the products are to take. If all this sounds lukewarm or downright cold you know something is not right or has been lost while making the distance between strategy and execution.

(ii) *The Grand Technology Platform will solve all problems:* Watch out for the grand daddy technology platform syndrome. And steer clear away from it.

(iii) *Teams spend their lives propping up the old systems, processes:* What proportion of effort does the team spend in activities that would prop up the organization's future? If the answer is none to minimal, then be assured you are looking at an unmotivated, or at least soon to be unmotivated, workforce. It is not enough if the board room thinks about the future of the organization, you need the rank and file to dream up ideas deal with challenges. Need to have systems and processes in place to harness these ideas.

(iv) *Each organizational unit views the strategy elephant in its own way:* It is not enough to have a strategy and send mails and print posters about it. Once its propagated to the entire organization follow up to see if all the details have been understood and perceived in the same way the strategists had seen it. Of course not every function should understand the idea in all its complexity, in some cases it might not even be feasible. But there should be no discordant perception. Ensure this is not the case by talking to a cross section of people and having middle management do the same.

(v) *Your teams talk and gossip about internal factors more than about the competition and the marketplace:* This is tricky to verify. But the surest way to ruin is this. With the pace of technology and lowering of threshold for established organizations to be questioned, it would be fatal for people to indulge in this mindset. If you see this behaviour, then switch on your warning signs and begin engaging your teams to understand causes and work upon addressing those.

(vi) *Skill in execution is to undergo another re-organization:* Some organizations do re-organize as a spectator sport. Every change in leadership goes about performing this circus. The endless mails about faith in team, amount of skill available, phenomenal opportunities must be a common occurrence in most organizations. Instead of focusing on getting things right or even understanding what is there already, its perhaps a ritual for leaders to go about shuffling things. I understand this is an oversimplification but wanted to raise this point as it can easily seem indispensable.

(vii) *Plenty of naked emperors ambling around:* These are the white elephants in the room. Sucking out precious resources and sapping out the enthusiasm. No one dare touch them. They are just there, until forced out.

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Factors responsible for Inertia: Distorted Perception, Dulled Motivation, Failed Creative Response, Political Deadlocks and Action Disconnects are the factors.

Distorted Perception: Growth begins with an idea based upon a perception. If perception is distorted, then growth may be impeded. The fundamental sources of perceptual distortion inducing organizational inertia are: myopia, hubris and denial, and grooved thinking.

Dulled Motivation: Even if perception is accurate, organizations may resist growth because the need is not felt with sufficient sharpness. The lack of sufficient motivation may be rational, or it may reflect agency or psychological problems. The most important motivational dampers are: direct costs of change, cannibalization costs, and cross-subsidy comforts.

Failed Creative Response: If perception is acute and motivation is sharp, growth may still be blocked by other forces. In particular, it may be difficult for the organization to choose a direction out of its difficulties. The impediment may be in the analysis of the situation or in choice itself. The major categories of friction in this area are: speed and complexity, reactive mindset, and inadequate strategic vision.

Political Deadlocks: Political deadlocks lead to inertia by tying up time and energy in wrangling. Growth in organizations of any size involves more than just commanding. The commitment and endorsement of powerful figures must be obtained if growth is to effectively move forward. That difficulties must be expected is oldest political wisdom. The innovator makes enemies of all those who prospered under the old order, and only lukewarm support is forthcoming from those who would prosper under the new. Their support is lukewarm partly from fear of their adversaries, who have the existing laws on their side, and partly because men are incredulous, never really trusting new things unless they have tested them by experience. Further managers rarely act to unseat themselves or to terminate their own departments. More interesting than the politics of self interest is the problem that arises when different individuals or groups hold sincere but differing beliefs about the nature of the problem or its solution.

Action Disconnects: The fifth source of friction concerns those forces which prevent action. The basic reasons for action blockades and disconnects are: leadership inaction, embedded routines, collective action problems, and capabilities gaps. Leadership must articulate a vision for growth, must alter incentives, must take direct action where possible, and must shift power. 'Leadership in the front' providing courage and energy by example, does well.

Escaping the Inertia: So, to get rid of the inertia, one must be aware of the types, causes and symptoms of inertia. Then, one can handle the inertia appropriately. (i) Effect well thought out changes; (ii) get out there and look around for new opportunities and new ones will be found, (iii) pooling of budgets makes more things more possible as budget constraints for growth can be got rid of, (iv) do it constructively and in terms of "the greater good," to become a hero and (v) pull out

the most "blue sky" of suggestions (that is, idealistic ones lacking practicality) and then see what's left – chances are, that pragmatic ones are available.

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3.4 ACTIVATION OF GROWTH

Once the inertia is escaped 'Activation of Growth' becomes pretty easier. **Activation** is the doing or making or moving phase. This is initiation into the action phase. This is the ignition point. This is the moment that seeds of growth are sown in the organization with lot of preparation and setting. This is the fielding point. This is the landing. This is the take-off. The organization with a growth motto lands upon the business field to quickly and smartly take-off. A good start itself is a great booster of performance.

Confident and committed engagement with the environment, both internal and external, gives a strong initiation. Information to all concerned, involvement of all and initiation by all are required. A strong motivation, a firm resolve to give the best, an unfailing attitude to recognize unique contributions and an ever pleasant kindness to share the gains equitably will make even the impossible just possible. Everyone must be made to experience one is smart and skilled and one has enough 'can-do spirit'.

Create a Strong Sense of Purpose: When we feel connected to the "why" behind our jobs, we work longer, harder, smarter and with greater passion. When disconnected from the end results of our work, our roles become abstract and we become disengaged.

Offer a Good Meaty Challenge: Stretching people just slightly out of their comfort zones is highly engaging. On the other hand, asking too little keeps us feeling bored and insignificant. However, asking the impossible breeds resentment and lack of respect.

Build a Connected Team Feeling: Personal connections, being part of something bigger than ourselves, knowing others depend on us and that our delivery has an impact on their ability to perform is a powerful and energizing motivator. When work is impersonal and disconnected from others, it's much harder to care.

Treat People With Respect: Virtually everyone does their best work when approached consistently as valuable human beings and team members. Conversely, being talked down to, blamed, ignored, yelled at, dismissed, and so on, almost always results in mutual disrespect.

Provide Constructive Feedback: Study after study shows that people work harder when they know how they are doing, whether the feedback indicates they are exceeding, meeting, or failing to meet expectations. One critical warning: make sure feedback is actionable and focused on the work, not the person. Blame, judgment, and feedback that does not suggest a course of action will demotivate.

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Give the Authority to Make Decisions that Impact Outcomes: When people are able to create and carry out actions that produce results, we feel empowered and take ownership of the process. When we're held responsible for conditions over which we have no control, we become passive and resentful, feeling that we've been set up to lose and that it doesn't matter what we do.

Allow Permission to Make Mistakes: In environments that encourage mistakes (and learning) we feel freer to think out of the box, to come up with new and better ways and speak up when we see the potential for problems ahead. When mistakes happen, we don't hesitate to surface them and get to immediate resolution. On the other hand, when we fear "getting in trouble," we risk less and cover-up more. Which do you think is of greater benefit to any organization?

3.5 WELL THOUGHT OUT IMPLEMENTATION PLAN

Different business plans meet different needs. A growth plan is different from a start-up plan, and a growth plan for a mature business in a stable market is different from one for a volatile business in a changing market. You may even need a plan that slows your growth until your business stabilizes as you develop your plan, it is important to remember that it is for your business. If something is suggested that does not apply to your situation, ignore it. This guide is structured so you can follow it completely or focus on a specific area. Whatever you choose to do, make sure you take a hard, practical look at what you are doing. If you cut too many corners or make assumptions, your plan will lack the solid foundation needed to take you into the future.

The following are some basic principles that should be considered while preparing the growth plans:

1. Business planning will succeed only if you want to change and are able to critically evaluate your business. If not, you are wasting your time and may want to turn to an outside party who can be more objective.
2. Business planning requires a holistic approach. All parts of a business work together to create a whole. This is true for planning, diagnosis, strategies and implementation.
3. Each of the four business divisions – marketing, operations, human resources and finance – is important, but at any given time one is usually most in need of development.
4. Businesses run into difficulty when the different divisions grow at different rates.
5. As a business grows, there are changes in each of the divisions that will move the business to a more formal, structured operation.

6. Business growth is limited by capacity in each division. In order to grow, it is necessary to identify capacity needs and plan to increase capacity as needed.

A well thought out implementation plan includes the following steps:

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1. Analyse your Business Situation
2. Focusing on key Division and Setting Goals
3. Developing Business Strategies
4. Implementation of Growth Plan.

1. Analysing the Business Situation

The foremost task of a growth plan is to get information about the each division of your organisation so that you can know the required growth areas. If your team is large enough, assign one person to each division, and make that person responsible for presenting findings to the rest of the team. The presenter becomes a champion for their area, and all team members have the information they need about all aspects of the business. If your business is small, you may need to assign more than one division to each team member, or you may need to complete the work on your own. As part of the pre-planning, you should determine an order for the analysis. While there are no set rules, many teams start with finance because it is the most objective area. While the order is not important, the formal nature of the analysis is. It cannot be said too often: Your diagnosis must be honest, objective and thorough or your plan will fail. You want to be sure you are working with facts, not assumptions. For example, it is important to know, if lower sales means you are losing customers or, if it means your existing customers are buying less.

Your measures for marketing will show how well your business is making the necessary transition from prospecting to customer service. While marketing measures are often subjective, you can set benchmarks that track the success or failure of everything from your company's marketing strategies and the effectiveness of your sales staff to product pricing and quality control.

Unlike marketing, human resources and finance, there are few general rules for operations because it is industry specific so you will have to adapt the tips to meet your specific needs. The section looks at the four general industry types – retail/ wholesale, manufacturing, service and hybrid (a combination of more than one of the other three). It suggests measures to examine things such as capacity, the role of suppliers, and the time required to process an order, produce a product or complete delivery.

Human resources measures explore how well your business recruits, develops, compensates, supports and manages staff. As you grow, you may be moving from an informal, collegial atmosphere to one that is more structured. You need to be sure that you have the right staff, people who share your values and can grow with your company. This means that taking the time to recruit and train new people carefully, and taking action quickly, if they cannot handle the work. It may also mean changing the duties of existing staff.

Finance is the most complex division, but it also offers the most objective measure of the health of any business because rules are set and followed in a fairly consistent and systematic manner. The diagnostic measures help you measure the financial strength of your business as you shift from a structure that is more internally focused to one that will meet growing external demands. You need to develop an operating; capital and cash flow forecast for your business and recognize that this is an integral part of your business operation.

2. Focusing on Key Division and Setting Goals

The systematic and realistic diagnosis of each of your four business divisions will uncover both issues and opportunities. It will arm you and your team with the detailed, objective information you need to identify which division is the most critical right now and to set goals. Step two involves a series of smaller steps. They include a SWOT (strengths, weaknesses, opportunities, threats) analysis, a review of your company's values, vision and mission and an assessment of weaknesses identified in your diagnosis. At this point, you will be able to identify your critical division and then set your goals based on your capacity to take on additional work.

3. Developing Business Strategies

If the goal is the destination, the strategy is the path you take to reach it. Some strategies address more than one part of the business, for example:

- Pricing affects marketing and finance.
- Hiring levels involve human resources and operations.
- Customer service policies are both human resources and marketing.
- Capital purchases are both operations and finance.

The strategies should not be dealt within isolation. A strategy in one division may have a direct or indirect influence on another division. Managing these interactions is one of the skills required in managing a growing company.

Marketing Strategies

Before you pursue a marketing strategy you need to know you have the operational, financial and human resource capacity to meet any increased demands. Marketing strategies can concentrate on finding new customers or promoting new products, or a combination of the two approaches. In the marketing section, you will find strategies that deal with customers, products, pricing, distribution and promotions or sales.

Operations Strategies

As is the case in other activities related to operations, the strategies outlined are more of a catalyst since the operations division is so industry specific. That said, there are some common objectives for operational strategies, such as:

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- Increase the company's output – whether in terms of manufactured units (manufacturing), hours billed (services) or units sold (wholesale/retail).
- Increase the company's efficiency – making more units faster at less cost.
- Decrease the company's costs – including everything from the input costs to operating costs.

Human Resources Strategies

A growing business needs a systematic human resource plan that anticipates your company's future needs. Implementing this plan as you achieve specific financial objectives is one of the best ways to grow your business in a controlled manner.

Human resources strategies will help you structure the formal recruiting, orientation, training and development, and compensation programs you will need to move ahead.

Finance Strategies

Finance strategies are critical to the success of any growing enterprise yet business owners often avoid them because they do not fully understand this division. Finance is just like any other part of the business. It is essential to your success, and it must be managed and planned.

Consolidation Strategies

These strategies will support consolidation or even contracting of the business until the situation improves. If this is the approach you take, you will still need to follow all the steps, including:

- Perform a complete diagnostic and SWOT analysis.
- Determine roadblocks, which may be roadblocks to survival rather than just roadblocks to growth.
- Select your key business division based on the most critical roadblock.
- Set goals, starting with the key business division.
- Monitor your progress.

Running a successful business means making difficult decisions. Delaying tough decisions can damage your business, and result in business failure. Making mistakes is a natural and necessary part of business development. Fixing mistakes is an essential part of the business growth and survival.

4. Implementation of Growth Plan

Implementing a plan, especially for a growing business, means making changes. This is never easy because people are driven by habit. It is important to be aware of your current behavior and be prepared to change as needed. For example, if your

company is in the habit of extending credit to slow-paying customers, you'll need to change this, if your goal is to increase cash flow by speeding up collections. You and your team must be committed to the new direction you have chosen. If you are working with a team, you can reinforce each other's commitment to implementing changes. Of course, if the change is seen as arbitrary or unnecessary, it quite rightly will often be ignored. Using the previous example, the credit policy will change only if the person in charge of it understands the importance of the change and is committed to it. While a solid plan will minimize the risks, those that remain must be acknowledged and managed. The team approach helps to minimize risk and increase acceptance. It may also help to find mentors, coaches or facilitators with specific expertise. For example, if you want to change your distribution network to a multiple chain operation, you may want to invite an employee or consultant to help with this part of the plan. It is usually easy to begin implementation enthusiastically but you may find it harder to maintain the pace three months down the road. Enthusiasm wanes even more if it takes longer than expected to implement the plan. The hopes and dreams, so fresh during the planning process, begin to fade, and the goals become seemingly less important every passing day. It is important to encourage and keep the enthusiasm high as you enter the dog days of implementation.

Follow up

Never forget that your objective is to eliminate roadblocks to growth, starting with your critical business division. Once you have your goals, examine the sequence and decide what needs to happen first. For example, if hiring three new employees is a priority, you will want to write job descriptions and prepare an orientation checklist before you start recruiting. This will make the hiring process more effective. You may know you can get a loan for a new piece of equipment, but you still need to do the paperwork before you go on shopping. While it is important to complete some of these more trivial tasks first, don't let this become an excuse to avoid the more important and complex tasks.

3.6 COMPETITIVE COMPENSATION PROGRAMMES

"If you pick the right people and give them the opportunity to spread their wings - and put compensation and rewards as a carrier behind it - you almost don't have to manage them."

— Jack Welch

Most of us would have heard the term "compensation" in the context of getting paid for the work that we do. The work can be as part of full time engagement or part time in nature. What is common to them is that the "reward" that we get for expending our energy not to mention the time is that we are compensated for it.

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From the perspective of the employers, the money that they pay to the employees in return for the work that they do is something that they need to plan for in an elaborate and systematic manner. Unless the employer and the employee are in broad agreement (We use the term broad agreement as in many cases, significant differences in perception about the employee's worth exist between the two sides), the net result is dissatisfaction from the employee's perspective and friction in the relationship.

It can be said that compensation is the "glue" that binds the employee and the employer together and in the organized sector, this is further codified in the form of a contract or a mutually binding legal document that spells out exactly how much should be paid to the employee and the components of the compensation package. Since, this article is intended to be an introduction to compensation management, the art and science of arriving at the right compensation makes all the difference between a satisfied employee and a disgruntled employee.

Though Maslow's Need Hierarchy Theory talks about compensation being at the middle to lower rung of the pyramid and the other factors like job satisfaction and fulfilment being at the top, for a majority of employees, getting the right compensation is by itself a motivating factor. Hence, employers need to quantify the employee's contribution in a proper manner, if they are to get the best out of the employee. The provision of monetary value in exchange for work performed forms the basis of compensation and how this is managed using processes, procedures and systems form the basis of compensation management.

As the module progresses, readers would be introduced to other aspects of compensation management like the components of compensation management, types of compensation, inclusion of variable pay, the use of Employee Stock Options, etc. The aspect of how skewed compensation management leads to higher attrition is discussed as well. This aspect is important as studies have shown that a majority of the employees who quit companies give inadequate or skewed compensation as the reason for their exit. Hence, compensation management is something that companies must take seriously, if they are to achieve a competitive advantage in the market for talent.

Considering that the current trend in many sectors (particularly the knowledge intensive sectors like IT and Services) is to treat the employees as "creators and drivers of value" rather than one more factor of production, companies around the world are paying close attention to how much they pay, the kind of components that this pay includes and whether they are offering competitive compensation to attract the best talent. In concluding this article, it is pertinent to take a look at what Jack Welch had to say in this regard: As the quote (mentioned at the beginning of this article) says, if the right compensation along with the right kind of opportunities are made available to people by the firms in which they work, then work becomes a pleasure and the manager's task made simpler leading to all round benefits for the employee as well as the employer.

Types of Compensation Programmes

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There are two types of compensation – **direct** and **indirect**.

The **Direct** compensation package of salesperson thus consists of the basic pay plus allowances covering all travel and entertainment expenses etc. In case, the salesperson has to stay overnight, his or her boarding and lodging allowances are also provide for. All the above expenses needless to say, are budgeted and controlled as per the salesperson's route and cycle of travelling. The salesperson is normally required to present necessary vouchers to get his or her expenses reimbursed.

The basic salary and other allowances are revised from time-to-time. They also increase with promotion of the salesperson. More important than the basic salary are the other benefits made available to the salesperson.

The Indirect compensation consists of financial as well as non-financial incentives. The financial incentives are again in more than one form:

(a) Salary plus commission on sales above a certain amount

Herein, the salesperson receives direct salary and in addition to it a commission. Every salesperson is assigned a fixed quota, territory wise/customerwise to be achieved in a fixed period of time. The commission is awarded on achievement of the targeted quota. Again, a fixed percentage of sales achieved over and above the target is also set. This type of compensation scheme ensures a direct salary as well as an in-built motivation system through incentives.

(b) Salary plus share in profits

This is not a very prevalent method. It is generally suggested for a company selling high value items with high profit margins. The incentive here is based on profits earned. Herein, the selling expenses to sell a product may also be large and this is incorporated in the profit sharing scheme as it acts as a control mechanism. Also salespersons working to obtain contracts are generally given a share in profits rather than awarded on direct sales.

(c) Non financial incentives

The trend these days is to provide other non financial incentives like:

(a) Training programme

(b) Awards, recognitions and prizes.

Most companies offer training programmes for their salespersons. On an average a salesperson has to undergo a training course every one or two years. These training programmes are viewed as an indirect benefit by the salespersons. They may be held in the company premises or preferably at an outdoor locale. They break the monotony of the salesperson's job as well as make him or her feel a part of the company team. A sense of belonging is cultivated which also motivates him or her.

In addition to the training programmes the award ceremonies for outstanding achievements in sales are held in exotic locales like hill stations or five-star hotels.

The awards are presented through foreign dignitaries or important people in the field, thus providing the salesperson with the much needed recognition. Also in the corporate sector travelling opportunities are given as incentives.

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Compensation Plan can Derive the Business Growth

Establishing an executive compensation plan involves a strategic planning process that to ensure the plan aligns with short-and long-term goals. It is much like a funnel. High-level overarching goals are set and broken down for consumption by the various levels of the organization. As they cascade down, there is smooth alignment.

For example, goals established at the executive level might address financial benchmarks, growing market share, retaining business, or meeting quality or productivity outcomes. Sometimes, as executives work to accomplish established goals, misalignment occurs. Examples include:

- Large base pay packages with small incentive opportunities tend to promote the status quo. There needs to be enough of a compensation "carrot" available to executives to make them interested in growing the organization. Typical pay packages for the CEO include a base pay with 50 to 100 per cent of base pay available in a short-term bonus and over 100 per cent of base pay available in a long-term incentive.
- Executive compensation packages need to be checked to ensure conflicts do not exist between short- and long-term goals. Sometimes executives are tempted to make decisions that generate short-term cash and provide them a generous bonus, but their decisions are detrimental to the organization over the long term. For instance, in a manufacturing environment, preventive maintenance is important. An executive may put off such maintenance so that the plant exceeds a productivity goal. As a result, short-term goals for productivity may be met, but the putting off maintenance jeopardizes the long-term life of the machinery.
- Sales goals and sales compensation must be designed carefully to compensate properly for the sale of all product lines. Checks must be put in place to ensure the organization doesn't emphasize for sales of a low-margin product line and under-incent for sales of a high-margin product line. The design must focus on incentives at the expense of the sale of more high-margin products.

Attrition and Compensation Management

Many studies have found that there is a direct causal linkage between the levels of compensation that a firm pays and the rate of attrition that it has. Attrition can be voluntary and involuntary, where the former is the employee quitting the company out of his or her own volition and the latter is the company asking the employee to quit for a number of reasons ranging from non-performance to violation of rules and regulations. In this article, we consider the voluntary attrition and the linkage between inadequate compensation and attrition.

Low compensation and Attrition

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The exit interviews conducted by the HR professionals to ascertain the reasons behind an employee's exit usually reveal that low compensation is a major factor behind the employee's decision to quit the company. Research into the phenomenon of attrition has found that many employees (particularly at the entry and the middle management levels) leave companies because they have been offered better compensation at another company. On the other hand, the senior management personnel quit to take up challenging roles that pay well as well as provide self actualizing drives to them.

Hence, it can be construed that compensation is a major factor behind an employee's desire to quit a particular company and join another company.

Compensation as a Hygiene Factor

Hertzberg's theory of motivation lists hygiene factors as those conditions when absent cause an employee to be dissatisfied. The point about this theory is that factors like adequate compensation, a congenial working environment and additional benefits are necessary to motivate the employee and they ought to be present to keep the employee happy. The absence of such factors makes the employee lose focus and drive and hence the lack of "hygiene" makes it difficult for the employee to continue.

How to Manage Compensation Expectations

The appraisal time or the time of the year when employees are graded on their performance is usually the time when employees put forth their aspirations and expectations regarding the compensation and other aspects of their job. Hence, the line managers and the HR managers must make it a point to "manage" the expectations of the employees during this period. The attrition is usually the highest when employees are handed their raise letters that specify how much their compensation is increased. This is because the employees might expect more than what they have been awarded which leads to dissatisfaction.

Though compensation in recent years has ceased to be the "be all" of employee satisfaction with the nature of work and the responsibilities that an employee has becoming more important in determining job satisfaction, it still is one of the most important factors behind an employee's decision to quit a company. Hence, it is incumbent upon HR professionals and the senior management that they devise compensation plans keeping in mind the various factors that drive an employee's psyche. Only when an employee is satisfied with his or her condition in a company can they perform at the desired levels.

3.7 SUPPORTIVE ORGANISATION CULTURE

Strategists should strive to preserve, emphasize, and build upon aspects of an existing culture that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed. Substantial

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research indicates that new strategies are often market-driven and dictated by competitive forces. For this reason, changing a firm's culture to fit a new strategy is usually more effective than changing a strategy to fit an existing culture. Numerous techniques are available to alter an organization's culture, including recruitment, training, transfer, and promotion, restructure of an organization's design, role modeling, and positive reinforcement.

Jack Duncan described triangulation as an effective, multi-method technique for studying and altering a firm's culture. Triangulation includes the combined use of obtrusive observation, self-administered questionnaires, and personal interviews to determine the nature of a firm's culture. The process of triangulation reveals needed changes in a firm's culture that could benefit strategy.

Schein indicated that the following elements are most useful in linking culture to strategy:

- Formal statements of organizational philosophy, charters, creeds, materials used for recruitment and selection, and socialization
- Designing of physical spaces, facades, buildings
- Deliberate role modeling, teaching, and coaching by leaders
- Explicit reward and status system, promotion criteria
- Stories, legends, myths, and parables about key people and events
- What leaders pay attention to, measure, and control?
- Leader reactions to critical incidents and organizational crises
- How the organization is designed and structured
- Organizational systems and procedures
- Criteria used for recruitment, selection, promotion, leveling off, retirement "excommunication" of people.

In the personal and religious side of life, the impact of loss and change is easy to see. Memories of loss and change often haunt individuals and organizations for years. Ibsen wrote, "Rob the average man of his life illusion and you rob him of his happiness at the same stroke. When attachments to a culture are severed in an organization's attempt to change direction, employees and managers often experience deep feelings of grief. This phenomenon commonly occurs when external conditions dictate the need for a new strategy. Managers and employees often struggle to find meaning in a situation changed many years before. Some people find comfort in memories; others find solace in the present. Weak linkages between strategic management and organizational culture can jeopardize performance and success. Deal and Kennedy emphasized making strategic changes in an organization always threatens a culture:

"People form strong attachments to heroes, legends, the rituals of daily life, the hoopla of extravaganza and ceremonies, and all the symbols of the workplace. Change strips relationships and leaves employees confused, insecure, and often angry. Unless something can be done to provide support for transitions from old to new, the force of a culture can be neutralize and emasculate strategy changes".

3.8 STRATEGIC CORE COMPETENCIES IN PLACE

Core competency is a unique skill or technology that creates distinct customer value. For instance, core competency of Federal Express (Fed Ex) is logistics management. The organizational unique capabilities are mainly personified in the collective knowledge of people as well as the organizational system that influences the way the employees interact. As an organization grows, develops and adjusts to the new environment, so do its core competencies also adjust and change. Thus, core competencies are flexible and developing with time. They do not remain rigid and fixed. The organization can make maximum utilization of the given resources and relate them to new opportunities thrown by the environment.

The main ideas about core competencies where developed by C K Prahalad and Gary Hamel through a series of articles in the Harvard Business Review followed by a best-selling book - Competing for the Future. Their central idea is that over time companies may develop key areas of expertise which are distinctive to that company and critical to the company's long-term growth.

'In the 1990s managers will be judged on their ability to identify, cultivate, and exploit the core competencies that make growth possible - indeed, they'll have to rethink the concept of the corporation itself.' C K Prahalad and G Hamel, 1990.

These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the company where the most value is added to its products.

For example, for a manufacturer of electronic equipment, key areas of expertise could be in the design of the electronic components and circuits. For a ceramics manufacturer, they could be the routines and processes at the heart of the production process. For a software company the key skills may be in the overall simplicity and utility of the program for users or alternatively in the high quality of software code writing they have achieved.

Core Competencies are not seen as being fixed. Core Competencies should change in response to changes in the company's environment. They are flexible and evolve over time. As a business evolves and adapts to new circumstances and opportunities, so its core competencies will have to adapt and change.

Identifying Core Competencies

Prahalad and Hamel suggest three factors to help identify core competencies in any business:

A competence which is central to the business's operations but which is not exceptional in some way should not be considered as a core competence, as it will not differentiate the business from any other similar businesses. For example, a process which uses common computer components and is staffed by people with only basic training cannot be regarded as a core competence. Such a process is highly

unlikely to generate a differentiated advantage over rival businesses. However it is possible to develop such a process into a core competence with suitable investment in equipment and training.

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What does the core competence Achieve?	Comments / Examples
Provides potential access to a wide variety of markets	The key core competencies here are those that enable the creation of new products and services. **Example:** Why has Saga established such a strong leadership in supplying financial services (e.g., insurance) and holidays to the older generation? Core Competencies that enable Saga to enter apparently different markets: • Clear distinctive brand proposition that focuses solely on a closely-defined customer group. • Leading direct marketing skills - database management; direct-mailing campaigns; call centre sales conversion. • Skills in customer relationship management.
Makes a significant contribution to the perceived customer benefits of the end product	Core competencies are the skills that enable a business to deliver a fundamental customer benefit - in other words: what is it that causes customers to choose one product over another? To identify core competencies in a particular market, ask questions such as "why is the customer willing to pay more or less for one product or service than another?" "What is a customer actually paying for? **Example:** Why have Tesco been so successful in capturing leadership of the market for online grocery shopping? Core competencies that mean customers value the Tesco.com experience so highly: • Designing and implementing supply systems that effectively link existing shops with the Tesco.com web site • Ability to design and deliver a "customer interface" that personalises online shopping and makes it more efficient • Reliable and efficient delivery infrastructure (product picking, distribution, customer satisfaction handling)

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Difficult for competitors to imitate	A core competence should be "competitively unique": In many industries, most skills can be considered a prerequisite for participation and do not provide any significant competitor differentiation. To qualify as "core", a competence should be something that other competitors wish they had within their own business. **Example:** Why does Dell have such a strong position in the personal computer market? Core competencies that are difficult for the competition to imitate: • Online customer "bespoking" of each computer built • Minimisation of working capital in the production process • High manufacturing and distribution quality - reliable products at competitive prices

Resources and capabilities are the building blocks upon which an organization create and execute value-adding strategy so that an organization can earn reasonable returns and achieve strategic competitiveness.

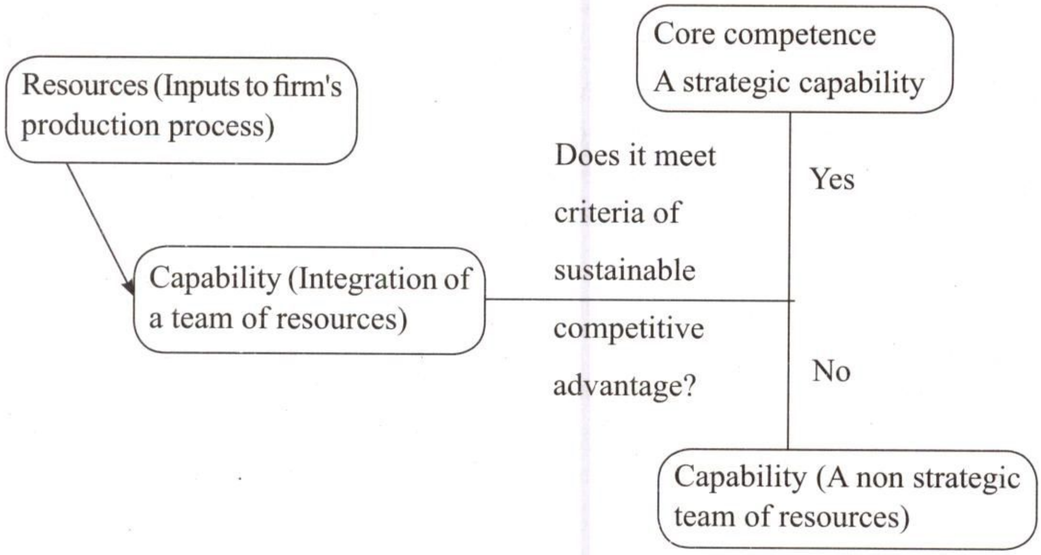

Fig. 3.1: Core Competence Decision

Resources are inputs to a firm in the production process. These can be human, financial, technological, physical or organizational. The more unique, valuable and firm specialized the resources are, the more possibly the firm will have core competency. Resources should be used to build on the strengths and remove the firm's weaknesses. Capabilities refer to the organizational skills at integrating its team of resources so that they can be used more efficiently and effectively.

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Organizational capabilities are generally a result of organizational system, processes and control mechanisms. These are intangible in nature. It might be that a firm has unique and valuable resources, but if it lacks the capability to utilize those resources productively and effectively, then the firm cannot create core competency. The organizational strategies may develop new resources and capabilities or it might make stronger the existing resources and capabilities, hence building the core competencies of the organization.

Core competencies help an organization to distinguish its products from its rivals as well as to reduce its costs than its competitors and thereby attain a competitive advantage. It helps in creating customer value. Also, core competencies help in creating and developing new goods and services. Core competencies decide the future of the organization. These decide the features and structure of global competitive organization. Core competencies give way to innovations. Using core competencies, new technologies can be developed. They ensure delivery of quality products and services to the clients.

3.9 FREQUENT TWO-WAY COMMUNICATION

It is necessary to have an effective two-way communication within the organization for business growth. "Frequent two-way communication helps each of us to fully recognize how we fit into our organization and carry out our mission of providing quality care." The strategic plan devised by the organisation proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. There is, in a sense, a statement of intent: implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.

Strategies lead to several plans and each plan leads to several programmers. Each programme results in several projects. Projects are supported by funds through budgets. The administrative mechanisms of polices, procedures, rules and regulations support the working of the organisation while it implements the projects, programmes, plans, and strategies. In this manner, strategy sits at the top of a pyramid that has projects as its base as shown in Fig. 3.2.

First of all, strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernisation plan. If expansion strategies have been adopted, various types of expansion plans will have to be formulated. An expansion plan could be designed to set up an additional plant to manufacture the same products. Similarly, diversification strategies could lead to new product development plans.

Plans result in different kinds of **programmes**. A **programme** is a broad term which includes goals, policies, procedures, rules and steps to be taken in putting

a plan into action. Programmes are usually supported by funds allocated for plan implementation. An example of a programme is an R & D programme for the development of a new product.

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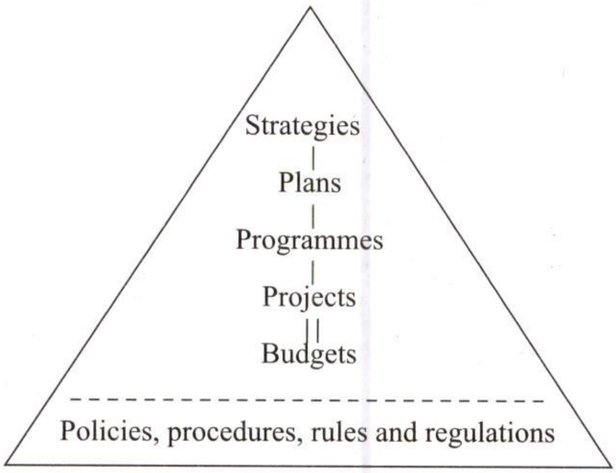

Fig. 3.2: The Pyramid of Strategy Implementation

Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires the allocation of funds based on capital budgeting by organisations. Thus, R & D programmes may consists of several projects, each of which is intended to achieve specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

Project creates the needed infrastructure for the day-to-day operations in an organisation. They may be used for setting up new or additional plans, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation strategies. A note of caution here: In practice companies may not make such a fine distinction among plans, programmes, and projects as we have done here. But as students of management we have to understand the difference and learn to distinguish between the different terms used in strategic management.

3.10 STRATEGIC STAFFING PLAN

Strategic staffing begins with assessing your business's employee needs in the context of your business priorities. Hire employees based on your staffing strategy, which is a mindset rather than a process. Identify everything that may affect the efficiency and profitability of your business's operations — and not just in the short term.

To get you started, here are some of the key questions that you and other people in your company should answer before you make your next staffing move:

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- What are your business's long-term strategic goals?
- What are the key competitive trends in your industry?
- What kind of culture currently exists in your business? And what kind of culture do you ultimately want to create? What are the values you want the company to stand for?
- What knowledge, skill sets, and attributes (in general) are required to keep pace with those goals and, at the same time, remain true to your company values?
- How the current level of knowledge, skill does sets, and attributes among your present employees match up with what will be necessary in the future?
- Can you expect that with the proper support and training, your current employees will be able to develop the skills they're going to need in order for your company to keep pace with the competition?
- What combination of resources (rather than specific people) represents the best strategic approach to the staffing needs you face over the near-term and the long-term?

Strategic staffing is about more than just hiring more employees. It involves making the best staffing choices available to address the core business needs you have identified. If you're thinking of filling an existing position, consider how the business's most critical needs have changed since the last time the job was open, rather than immediately searching for a candidate to fill the vacant position. Is a full-time individual still required? Should a potential replacement have the same skills and experiences as her predecessor? Does the position need to be refilled at all?

The following are the key steps included in strategic staffing:

1. **Define critical staffing issues/areas of focus:** The first step of the process, then, is to identify and prioritize your most critical staffing issues and select those for which specific staffing strategies are required.
2. **Define staffing gaps and surpluses:** Once you have selected an issue (or an area on which your analysis will focus), the next step is to develop a staffing model to address that issue that defines staffing requirements, forecasts staff availability, compares demand to supply, and calculates staffing gaps and surpluses for each job category for each period in your planning horizon. The design of the model will be specific to the issue that you select.
3. **Develop staffing strategies:** The next step is to review the preliminary staffing gaps and surpluses, as calculated by your model, across all the planning periods in your planning horizon. Create a series of long-term, directional plans of action that describe what your organization should do to address those critical staffing issues most effectively (i.e., how to best align staffing demand and supply) across all planning periods, throughout the entire planning horizon. At this point, do not focus your efforts on any one planning period. There are three kinds of differences that you might identify:

- *Staffing levels.* You may have too many staff (a surplus) or too few staff (a gap or deficit) in some job categories to implement the company's business plans effectively.
- *Capabilities.* It may be that you have the right number of staff, but that these individuals lack particular capabilities that will be needed to implement the company's business strategies.
- *Mix.* It may be the case both that you have the wrong number of staff and that the staff you have lack critical capabilities.

4. **Define staffing plans:** After you have developed staffing strategies that span all planning periods, go back and examine the specific staffing needs for each period. Following the concept of the "upsidedown T", use the staffing strategies developed in the previous step as a long-term context and define the specific staffing actions that will allow you to meet the staffing needs effectively and efficiently in each planning period. Make sure that those actions are consistent with and fully support the staffing strategies that you developed in the previous step.

By adopting a strategic staffing approach, your options for staffing solutions multiply. You gain flexibility. It allows you to rapidly expand or contract a well-thought-out mix of talent to meet both current and long-term goals.

3.11 EFFICIENT DECISION-MAKING PROCESS

Every organization needs to make decisions at one point or other as part of managerial process. Decisions are made in the best interest of the organization. For that matter, decisions made by the organization are to lighten the way forward. Be it strategic, business activities or HR matters, processes of making decisions is complex, involves professionals of different genre. While small organization involves all levels of managers, complex organizations largely depend on a team of professionals specially trained to make all sorts of decisions. But remember, such a body alone cannot come out with final decisions. Here, the point is, decision-making process is cumulative and consultative process. The process, on the whole, bears its pros and cons and would by and large emanate results and consequences in the organizations' overall growth and prospects.

Decisions are taken to support organizational growth. The whole fabric of management, i.e., its day-to-day operation is rightly built on managerial decisions. Top notch companies, as evidenced by their functions, effective communication tools are utilized in addition to normal consultation process to make decisions that would have large scale implications on the company's prospects

Discussions and consultations are the two main tools that support and eventually bring out decisions. For instance to take a decision on how to embark on new business activity suggested by the strategic management team must have developed through

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series of consultative process, which is now available with implementation team. Here we see the cumulative effect of decision taken at one point by a different body of affairs. Decision taken by strategic managers is to push new and innovative business line or initiative. At this point the decision taken by such team becomes consultative point for discussion for implementation professionals. There is lot to debate, research and finalize. Is the new proposal viable? Is it innovative enough? Can there be growth stimulant in the strategies proposed? Handle-ful of such questions evolved from the decision taken by strategic group has reflective influence on the next level of managerial consultations and meetings. Let us accept, at this point of discussion, that proposals submitted by the business development team would largely depend on another set of deliberations in the board room.

Thus, the final decision to roll out a product or service is through cumulative interim decisions taken by various internal and external parties. And also the final decision is reflective and founded on researches and consultations. Whole process is a chain affair where one decision taken at one point and at one level shall have far reaching implications in the way an organization moves forward.

As a matter of fact, capable of taking critical decisions are one of the many attributes that every manager should have, be it top level or middle or entry level. By nature a human being during his existence and by virtue of his instinct makes decisions for his survival, as social psychologists put it. By and large, managers are polished individuals to take decisions to affect others, i.e., the organization's existence and growth thus is annotative with human endeavor to live and succeed. Success succeeds on the decisions taken, be it by an individual or an organization.

What is Decision-Making?

Decision-making is an integral part of modern management. Essentially, Rational or sound decision-making is taken as primary function of management. Every manager takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in the role of a manager. Decisions play important roles as they determine both organizational and managerial activities. A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals. Decision-making process is continuous and indispensable component of managing any organization or business activities. Decisions are made to sustain the activities of all business activities and organizational functioning.

Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered.

As such, decision-making process can be further exemplified in the backdrop of the following definitions.

Definition of Decision Making

According to the Oxford Advanced Learner's Dictionary the term decision-making means - the process of deciding about something important, especially in a group of people or in an organization.

Trewatha and Newport defines decision-making process as follows:, "Decision-making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem".

As evidenced by the foregone definitions, decision-making process is a consultative affair done by a committee of professionals to drive better functioning of any organization. Thereby, it is a continuous and dynamic activity that pervades all other activities pertaining to the organization. Since it is an ongoing activity, decision-making process plays vital importance in the functioning of an organization. Since intellectual minds are involved in the process of decision-making, it requires solid scientific knowledge coupled with skills and experience in addition to mental maturity.

Further, decision-making process can be regarded as check and balance system that keeps the organisation growing both in vertical and linear directions. It means that decision-making process seeks a goal. The goals are pre-set business objectives, company missions and its vision. To achieve these goals, company may face lot of obstacles in administrative, operational, marketing wings and operational domains. Such problems are sorted out through comprehensive decision-making process. No decision comes as end in itself, since in may evolve new problems to solve. When one problem is solved another arises and so on, such that decision-making process, as said earlier, is a continuous and dynamic.

A lot of time is consumed while decisions are taken. In a management setting, decision cannot be taken abruptly. It should follow the steps such as:

- Defining the problem
- Gathering information and collecting data
- Developing and weighing the options
- Choosing best possible option
- Plan and execute
- Take follow up action

Since decision-making process follows the above sequential steps, a lot of time is spent in this process. This is the case with every decision taken to solve management and administrative problems in a business setting. Though the whole process is time consuming, the result of such process in a professional organization is magnanimous

Decision-Making in an Organizational Context

Decision-making is part of everyone's life and all of us have to make decisions every moment. Right from choosing what to wear to what to eat to where we live and work

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and extending to whom we marry, decisions are an integral part of our lives. In an organizational context, it is worthwhile to note that decision-making needs the right kind of information, the complete information and the ability to synthesize and make sense of the information. While the first two attributes depend on external sources, the ability to make informed decisions is a personality trait. Hence, successful CEO's are those who can take into account the different viewpoints and divergent perspectives and arrive at the right decision.

The business landscape of the current times is littered with examples of companies that have made strategic errors and these are mostly to do with lack of proper decisions taken by the CEO's and managers in these firms. For instance, the failure of Chrysler and Ford (the automobile majors in the United States) to meet the challenge of competition from Japanese auto majors like Toyota was mostly due to the lack of imaginative decisions that would have responded to the threat in a coherent manner. Of course, it is another matter that these companies (Chrysler in particular) under the stewardship of Lee Iacocca were able to successfully meet the competition by the Japanese because of firm decisions taken by him.

The other aspect that relates to decision-making in an organizational context is that there must be complete and accurate information made available to the decision maker. In Economics, there is a term called "asymmetries of information" that indicates how incomplete and insufficient information leads to poor decisions and wrong choices. What this concept means is that having partial information or faulty information often leads to "analysis paralysis" which is another term for poor decision-making abilities. Finally, even with reliable and accurate information, the decision maker ought to have good problem solving skills and astute decision-making abilities to arrive at sound judgments regarding the everyday problems and issues.

The overriding rule in decision-making is that the decision maker ought to have legitimacy and authority over the people who he or she is deciding upon. In other words, decision makers succeed only when their decisions are honored and followed by the people or groups that the decision impacts. The reason for mentioning this towards the end is that in many cases, the fragmented nature of the organizations with different interests represented by factions often undermines the decision-making capabilities of the decision maker. Hence, it is worth mentioning that such authority must be vested with the decision maker.

Hence, it is clear that the topic of decision-making encompasses several elements (some of which have been briefly discussed in this article). We hope to cover more of these elements in detail in the subsequent articles and this article is thought of as setting the tone for the rest of the module on decision-making.

Check Your Progress

1. What are the finance strategies?
2. What do you mean by compensation management?
3. Define core competencies.
4. What is a programme?

Steps in Decision-Making Process

Decision-making process is like a school exam. Those who take good decisions will pass the exam and the rest who does not take right decisions will have to bear the consequences. Being able to take good decision is important for everyone, whether

he/she is a student, teacher, manager, principal, president, leader of any institution, etc. A student has to take decisions about his career, a president has to take decisions regarding his country's benefit, and a manager has to take decisions regarding his company and likewise the leader of any institution. So every single person has to pass this step in order to progress in their field.

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The meaning of decision in Latin is to 'cut off'. This means that from all the available alternatives you choose one thing and then cut off from all the other alternatives. Due to this, the decision-making process sometimes becomes very difficult. Choosing the right option from all the available alternatives is very hard to do.

Decision-making process requires thinking process, time, efforts, resources and also a little bit of knowledge and past experiences. Thinking process plays an important role in decision-making process because it allows you to judge each and every thing. Timing is also important.

Taking right decisions on right time can save you from any trouble. Taking too little time to take decisions or taking too much time to execute your decision can cause many problems for you. Decision-making processes also requires knowledge, experience and research. If you have knowledge, you can find out different alternatives for the problem faced. Making decisions without having proper knowledge about the problem can cause difficulties.

In our view decision-making power is the key to progress in life. You might have seen many people who do not take proper decisions and then they have to suffer. On the other hand people who have this decision-making power, continues to progress in their life. Not all of us have this decision-making power. We try to make right decisions but sometimes we make mistakes because we don't know the steps that we should follow during the decision-making process. So in order to take right decisions, it is important that we should know all the steps of decision-making process and follow them.

The decision-making process involves the following steps:

1. Curious Observation
2. Existence of Problem
3. Goals and Planning
4. Search, Explore and Gather the Evidence
5. Generate Creative and Logical Alternative Solutions
6. Evaluate the Evidence
7. Make the Educated Guess (Hypothesis)
8. Challenge the Hypothesis
9. Reach a Conclusion
10. Suspend Judgment
11. Take Action

These steps will help you to take proper decisions

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Each of these steps will be explained one-by-one in further articles. Anyone who wants to be a good decision maker should follow these steps. Whether your problem is big or small these steps will show you the right path to solve your problem and will lead you towards progression.

3.12 FULL DELEGATION AND ACCOUNTABILITY

A manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

Elements of Delegation

- **Authority:** in context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organizational objectives. Authority must be well-defined. All people who have the authority should know what is the scope of their authority and they shouldn't misutilize it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority. Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn't imply escaping from accountability. Accountability still rest with the person having the utmost authority
- **Responsibility:** is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn't accomplish tasks assigned as expected, then also he is answerable for that.

- **Accountability:** means giving explanations for any variance in the actual performance from the expectations set. Accountability cannot be delegated. For example, if 'A' is given a task with sufficient authority, and 'A' delegates this task to B and asks him to ensure that task is done well, responsibility rest with 'B', but accountability still rest with 'A'. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can't be escaped. It arises from responsibility.

For achieving delegation, a manager has to work in a system and has to perform following steps :

1. Assignment of tasks and duties
2. Granting of authority
3. Creating responsibility and accountability

Delegation of authority is the base of superior-subordinate relationship, it involves following steps:

1. **Assignment of Duties:** The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
2. **Granting of authority:** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
3. **Creating Responsibility and Accountability:** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important. Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority. Therefore, it becomes important that with every authority position an equal and opposite responsibility should be attached.

Therefore every manager, i.e., the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee's role which means his responsibility and accountability is attached with the authority over to here.

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Relationship between Authority and Responsibility

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates, in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates. If the marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

Differences between Authority and Responsibility

Authority	Responsibility
It is the legal right of a person or a superior to command his subordinates.	It is the obligation of subordinate to perform the work assigned to him.
Authority is attached to the position of a superior in concern.	Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him.
Authority can be delegated by a superior to a subordinate	Responsibility cannot be shifted and is absolute
It flows from top to bottom.	It flows from bottom to top.

3.13 TEAM BASED ENVIRONMENT

Growth Management Strategies can help you analyze your organizational goals to determine whether it appropriate to implement a broad-based team design, use a limited application of work teams or engage in team building for your current work groups. One cannot work alone in any organization and thus teams are formed where individuals work together for a common objective. Peter, Michael, Jackson and Sandra represented the legal team in a leading organization. Peter and Michael always took the initiative and performed their level best while Jackson and Sandra had a laidback attitude towards work. Their team could never meet their targets inspite of Peter and Michael's hard work.

Team work is actually the collective effort of each and every team member to achieve their assigned goal. No member can afford to sit back and expect the other

member to perform on his behalf. The team members must be committed towards their team as well as their organization to avoid conflicts. Nothing productive comes out of unnecessary conflict and in turn diverts the concentration and focus of the team members. Every member should adopt an adjusting and a flexible attitude. One should consider his team members as a part of his extended family all working together towards a common goal. The team members must be dependent on each other for the best to come out.

Tips for a better team work

Let us go through some steps for a better team work

- **Think about your team first:** Every individual should think of his team first and his personal interests should take a backseat. Do not mix your personal issues with your professional life. Keep them separate.
- **Never underestimate your team member:** Do not neglect any of the members, instead work together and also listen to them as well. Never try to impose your ideas on any member. Avoid demotivating any team member.
- **Discuss:** Before implementing any new idea, it must be discussed with each and every member on an open platform. Never ever discuss with anyone separately as the other person feels left out and reluctant to perform and contribute to the team.
- **Avoid criticism:** Stay away from criticism and making fun of your team members. Help each other and be a good team player. Be the first one to break the ice and always create a friendly ambience. If you do not agree with any of your team member, make him understand his mistakes but in a polite tone and do guide him. Avoid negativity within the team.
- Transparency must be maintained and healthy interaction must be promoted among the team members. The communication must be effective, crystal clear and precise so that every team member gets a common picture. Effective communication also nullifies misunderstandings and confusions. Confusions lead to conflicts and individuals waste their time and energy in fighting rather than working.
- The team leader must take the responsibility of encouraging the team members to give their level best and should intervene immediately in cases of conflicts. The personality of the leader should be such that every team member should look up to him and take his advice whenever required. He should not be partial to any member and support each of them equally. It is the duty of the team leader to extract the best out of his team members.

For better team work, try to understand your team members well. Do not just always talk business, it is okay, if you go out with your team members for lunch or catch a movie together. It improves the relations and strengthens the bond among the team members. The team members must trust each other for maximum output.

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- **Avoid conflicts in your team.** Don't fight over petty issues and find faults in others. One should be a little adjusting with each other and try to find an alternative best suited to all the team members.
- **Rewards and Recognition:** Healthy competition must be encouraged among the team members. The performance of every team member must be evaluated timely and the best performer should be rewarded suitably so that the other members also get motivated to perform. Recognitions like "The Best Team Player" or the "The Best Performer" go a long-way in motivating the team members. Appreciate the member who performs the best or does something unique.

3.14 PERFORMANCE MANAGEMENT PROGRAMME

The most effective performance improvement programme will be one based on continuous improvement, quality and an element of a pay-for-performance incentive reward. Goals will be focused on the internal and external customers, meeting their demands and improving processes and productivity. However, one approach will not work with all employees. Any organization will have a mix of individuals who are motivated by different factors.

According to Armstrong and Baron (1998), Performance Management is both a strategic and an integrated approach to delivering successful results in organizations by improving the performance and developing the capabilities of teams and individuals. The term performance management gained its popularity in early 1980's when total quality management programs received utmost importance for achievement of superior standards and quality performance. Tools such as job design, leadership development, training and reward system received an equal impetus along with the traditional performance appraisal process in the new comprehensive and a much wider framework. Performance management is an ongoing communication process which is carried between the supervisors and the employees throughout the year. The process is very much cyclical and continuous in nature. A performance management system includes the following actions.

- Developing clear job descriptions and employee performance plans which includes the key result areas (KRA') and performance indicators.
- Selection of right set of people by implementing an appropriate selection process.
- Negotiating requirements and performance standards for measuring the outcome and overall productivity against the predefined benchmarks.
- Providing continuous coaching and feedback during the period of delivery of performance.

- Identifying the training and development needs by measuring the outcomes achieved against the set standards and implementing effective development programmes for improvement.
- Holding quarterly performance development discussions and evaluating employee performance on the basis of performance plans.
- Designing effective compensation and reward systems for recognizing those employees who excel in their jobs by achieving the set standards in accordance with the performance plans or rather exceed the performance benchmarks.
- Providing promotional/career development support and guidance to the employees.
- Performing exit interviews for understanding the cause of employee discontentment and thereafter exit from an organization.

A performance management process sets the platform for rewarding excellence by aligning individual employee accomplishments with the organization's mission and objectives and making the employee and the organization understand the importance of a specific job in realizing outcomes. By establishing clear performance expectations which includes results, actions and behaviors, it helps the employees in understanding what exactly is expected out of their jobs and setting of standards help in eliminating those jobs which are of no use any longer. Through regular feedback and coaching, it provides an advantage of diagnosing the problems at an early stage and taking corrective actions.

To conclude, performance management can be regarded as a proactive system of managing employee performance for driving the individuals and the organizations towards desired performance and results. It's about striking a harmonious alignment between individual and organizational objectives for accomplishment of excellence in performance.

According to Lockett (1992), performance management aims at developing individuals with the required commitment and competencies for working towards the shared meaningful objectives within an organizational framework. Performance management frameworks are designed with the objective of improving both individual and organizational performance by identifying performance requirements, providing regular feedback and assisting the employees in their career development. Performance management aims at building a high performance culture for both the individuals and the teams so that they jointly take the responsibility of improving the business processes on a continuous basis and at the same time raise the competence bar by upgrading their own skills within a leadership framework. Its focus is on enabling goal clarity for making people do the right things in the right time. It may be said that the main objective of a performance management system is to achieve the capacity of the employees to the full potential in favor of both the employee and the organization, by defining the expectations in terms of roles, responsibilities and accountabilities, required competencies and the expected behaviors. The main

goal of performance management is to ensure that the organization as a system and its subsystems work together in an integrated fashion for accomplishing optimum results or outcomes.

The major objectives of performance management are discussed below:

- To enable the employees towards achievement of superior standards of work performance.
- To help the employees in identifying the knowledge and skills required for performing the job efficiently as this would drive their focus towards performing the right task in the right way.
- Boosting the performance of the employees by encouraging employee empowerment, motivation and implementation of an effective reward mechanism.
- Promoting a two-way system of communication between the supervisors and the employees for clarifying expectations about the roles and accountabilities, communicating the functional and organizational goals, providing a regular and a transparent feedback for improving employee performance and continuous coaching.
- Identifying the barriers to effective performance and resolving those barriers through constant monitoring, coaching and development interventions.
- Creating a basis for several administrative decisions strategic planning, succession planning, promotions and performance based payment.
- Promoting personal growth and advancement in the career of the employees by helping them in acquiring the desired knowledge and skills.

Some of the key concerns of a performance management system in an organization are:

- Concerned with the output (the results achieved), outcomes, processes required for reaching the results and also the inputs (knowledge, skills and attitudes).
- Concerned with measurement of results and review of progress in the achievement of set targets.
- Concerned with defining business plans in advance for shaping a successful future.
- Striving for continuous improvement and continuous development by creating a learning culture and an open system.
- Concerned with establishing a culture of trust and mutual understanding that fosters free flow of communication at all levels in matters such as clarification of expectations and sharing of information on the core values of an organization which binds the team together.
- Concerned with the provision of procedural fairness and transparency in the process of decision-making.

The performance management approach has become an indispensable tool in the hands of the corporates as it ensures that the people uphold the corporate values and tread in the path of accomplishment of the ultimate corporate vision and mission. It is a forward looking process as it involves both the supervisor and also the employee in a process of joint planning and goal setting in the beginning of the year.

3.15 CHANGE MANAGEMENT TOOLS IN PLACE

The business landscape of the 21st century is characterized by rapid change brought about due to technological, economic, political and social changes. It is no longer the case that the managers and employees of firms in this decade can look forward to more of the same every year. In fact, the pace of change is so rapid and the degree of obsolescence, if organizations resist change is so brutal that the only way out for many firms is to change or perish. In this context, it becomes critical that organizations develop the capabilities to adapt and steer change in their advantage.

The role of senior managers becomes crucial in driving through change and ensuring that firms are well placed with respect to their competitors. However, it is the case that in many organizations, senior managers actively resist change and in fact thwart change initiatives due to a variety of reasons which would be explored in subsequent sections. This essay examines the barriers to change by senior managers and discusses approaches to mitigate such resistance. The essay begins with a discussion and the role of senior managers as barriers to change and then outlines some approaches on how to get the senior managers on board for change.

It goes without saying that "he who rejects change is the architect of decay and the only human institution that rejects progress is the cemetery." With this axiom in mind, it is critical to understand that unless change is actively embraced, organizations in the 21st century risk obsolescence.

To resist change is as basic as human nature and hence the change managers must adopt an inclusive approach that considers the personality clashes and the ego tussles. It is often the case that in large organizations, there tend to be power centres and fiefdoms and hence the issue of organizational change must address the group dynamics as well as the individual behavioural characteristics.

Only by an understanding of the means by which managers can be brought on board can there be a foundation for suitable approaches. The approaches include a combination of pressure tactics and coordination instead of competition and cooption as well as cooperation. Change agents must realize that wherever possible, they must deal with consensual decision-making and if that is not possible, they must walk the talk and be firm in their approach. Managers at all levels have a tendency to resist change and in the high stakes game of change management, it is the ones that can articulate and communicate the change in a clear and coherent manner who succeed.

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In conclusion, change is the only constant in business and the landscape of the 21st century is littered with companies that have not adapted to the changing times. Hence, organizations must and should embrace change and the approaches discussed in this paper are part of the solution.

Many organizations take the help of external consultants in identifying, recommending and implementing change. This article looks at whether there is indeed a case to be made for external consultants to help with the change management programs.

If we look at the reasons why organizations rope in external consultants like McKinsey, BCG and Booze Allen group (among others) we find that they do so mainly because they need an independent and objective perspective on what needs to be changed and how it should be achieved.

For instance, companies like Jaguar, BP and Shell have all relied on external consultants to help them with their change management programs. And, they have been relatively successful in their efforts as can be seen in the way they have transformed themselves in the marketplace

However, there have been notable failures as well. For instance, the Parry's group failed spectacularly in its efforts to change its business processes and outlook towards the market. Despite taking the help of external consultants, the company could not transform itself. So, what is that differentiates whether external consultants succeed or fail to help companies in their change management programs. First, there needs to be cooperation with the consultant from the entire top management and not merely the CEO or a few directors/managers. The point is that the external consultants must not fall prey to the office politics and hence the entire leadership must stand solidly behind them.

Next, there cannot be any information that is withheld from the external consultants. The key to change is that complete information about the organization and its strengths and most importantly, its flaws must be visible and so the external consultants must have the full cooperation of the people who are responsible for implementing their recommendations. In fact, one of the reasons the CEO or the Board of Directors often take the help of consultants is that they need an objective view of the situation which is unbiased and not tinted by the prejudiced perspective of politicking employees.

The other aspect that makes organizations rely on external consultants is because these consultants have experience in dealing with companies in similar industries and hence can apply their expertise and experience to recommend specific changes. However, it is the case that consultants can get too close to the management to the point where they are compromised because of their proximity to the powers that be. Some examples of this include the Arthur Anderson and Enron Saga where both the consultants (Anderson Consulting) and Enron became partners in swindling the employees and the people. Closer home, the way in which PWC or Price Waterhouse Coopers was a partner to the Satyam scandal shows that there are downsides to having consultants guide the companies.

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In conclusion, consultants bring a fresh perspective to dealing with organizational issues and hence are vital to the change management program. However, there is a need to observe professional rules of conduct and there must be ethical behavior from both sides of the equation.

Elements of a change management strategy

1. **Situational awareness**

- **Change characteristics:** Begin by understanding the change that is being introduced. Changes can be formalized projects, strategic initiatives or even small adjustments to how the organization operates. Understanding the characteristics of the change requires you to answer questions like: What is the scope of the change? How many people will be impacted? Who is being impacted? Are people being impacted the same or are they experiencing the change differently? What is being changed - processes, systems, job roles, etc.? What is the timeframe for the change?
- **Organizational attributes:** Next, work to understand the people and groups being impacted by the change. The organizational attributes are related to the history and culture in the organization and describe the backdrop against which this particular change is being introduced. What is the perceived need for this change among employees and managers? How have past changes been managed? Is there a shared vision for the organization? How much change is going on right now?
- **Impacted groups:** The final step in building the situational awareness is developing a map of who in the organization is being impacted by the change and how they are being impacted. A single change - say the deployment of a web-based expense reporting programme - will impact different groups very differently. Employees that do not have expenses to report will not be impacted at all. Staffs who travel once a quarter will be only slightly impacted. Associates who are on the road all the time will be more impacted, although filing expenses is only a portion of their day-to-day work. And for those in accounting who manage expense reporting, their jobs will be completely altered. Outlining the impacted groups and showing how they will be impacted enables specific and customized plans later in the change management process.

2. **Supporting structures**

- **Team structure:** The change management team structure identifies who will be doing the change management work. It outlines the relationship between the project team and the change management team. The most frequent team structures include 1) change management being a responsibility assigned to one of the project team members or 2) an external change management team supporting a project team. The key in developing the strategy is to be specific and make an informed decision when assigning the change management responsibility and resources.

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- **Sponsor coalition:** The sponsor coalition describes the leaders and managers that need to be on-board for the change to be successful. Starting with the primary sponsor (the person who authorized and funded the change), the sponsor model documents the leaders of the groups that are being impacted by the change. The change characteristics will determine who must be the part of the coalition. Each member of the sponsor coalition has the responsibility to build support and communicate the change with their respective audiences.

3. **Strategy analysis**

- **Risk assessment:** The risk of not managing the people side of change on a particular change is related to the dimensions described in the situational awareness section. Changes that are more 'dramatic' and farther reaching in the organization have a higher change management risk. Likewise, organizations and groups with histories and cultures that resist change face higher change management risk. In developing the strategy, overall risk and specific risk factors are documented.
- **Anticipated resistance:** Many times, after a project is introduced and meets resistance, members of the team reflect that "they saw that reaction coming." In creating the change management strategy, identify where resistance can be expected. Are particular regions or divisions impacted differently than others? Were certain groups advocating a different solution to the same problem? Are some groups heavily invested with how things are done today? Note particular anticipated resistance points depending on how each group is related to the change.
- **Special tactics:** The final step of the change management strategy is the identification of any special tactics that will be required for this particular change initiative. The special tactics formalize many of the learnings from the strategy development related to the change and how it impacts different audiences in the organization. Throughout the change implementation, special tactics may need to be revisited and updated.

Change management strategy checklist

	Situational awareness
☐	An assessment of the change characteristics has been completed.
☐	An assessment of the organizational attributes has been completed.
☐	An index of the impacted groups has been completed.
	Supporting structure
☐	The change management team structure has been decided and agreed upon.

❑	A diagram of the necessary sponsor coalition and its current health has been completed.
	Strategy analysis
❑	A proactive risk assessment has been completed.
❑	Areas of anticipated resistance have been identified.
❑	The team has formulated any special tactics required for this particular change.

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3.16 SUPPORTIVE SYSTEMS AND PROCESSES

Many organizations fail to achieve their desired growth targets in revenue and profitability. Most businesses fall short of achieving their growth objectives for revenue and profitability. In fact, studies report success rates as low as 20%. Why is growth so elusive? Based on our research and experience, there are two major reasons:

1. Inadequate consideration of opportunities within the core business, adjacent to the core business or within new customer sub-segments.
2. An organizational infrastructure that cannot support successful execution.

However, managers can do certain things to improve the chances for success. This article will describe one such thing managers can do, namely build a systematic framework composed of three strategies for growth and three key elements for successful execution. The article will also explain how the three strategies and three key elements increase the probability for success.

The three Growth Strategies described above require a supporting infrastructure to increase the chances of successful implementation. Lack of an adequate infrastructure is the second reason cited for not achieving growth objectives.

A supportive infrastructure includes (1) organization capabilities that are valued by customers, (2) a management-performance system and scorecard which focuses on leading indicators and the drivers of growth and (3) strong leadership practices at every level of the organization.

1. **Organization capabilities** are the processes that are strategic and deliver a high level of value to customers. For example, a firm may have the capability to:
   - Successfully entering new markets,
   - Create excellent new products or services which appeal to customers, or
   - Provide an outstanding level of customer service.

Note that the three organization capabilities selected are vital to the success of specific Customer-Focused Growth Strategies.

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Each of these capabilities is rooted in processes that move across the organization and require the expertise and commitment of various individuals and departments.

It's widely accepted that an organization's success is rooted in its competitive-edge, organizational capabilities. Therefore, a major challenge that senior managers face is to clarify, assess and continually strengthen their organization's strategic capabilities.

An important aspect of the clarifying and assessing process requires that senior managers step outside their organization and evaluate both their firm and their competitors' through the eyes, mind and heart of the customer. The following guidelines will help with such an assessment. The capability should be:

- Highly visible to key individuals within the customer organization, and acknowledged as providing exceptional value.
- Difficult for present and potential competitors to replicate.

As an example, let's examine the capability to provide an outstanding level of customer service in a manner that would make it difficult for competitors to replicate. In order to provide such a high level of customer service, employees from different departments (not only the Customer Service Department) must be involved in service delivery. Employees throughout the organization should connect quickly and collaborate willingly. Collectively, relevant information and insights about customers and product or service delivery must be shared.

The high level of cross-departmental collaboration required can prove challenging for some organizations, particularly those with rigid vertical structures. Such structures make it difficult for employees to adapt and respond to special customer service requirements. Note that under these conditions, an employee's loyalty often shifts from the firm to their department or profession.

Delivering a superior level of customer value requires uninterrupted flow across the organization. Eliminating barriers to flow – breaking down departmental silos- is a necessary first step to building an organization's strategic capabilities, regardless of the specific capability.

2. **A second key element of infrastructure necessary for successful execution is the Performance Management system and scorecard.**

The process starts by answering the question, what should be measured and why?

The following guidelines help answer this question.

- Scorecards depict key strategic relationships, particularly between the desired performance outcomes such as revenue and profit growth and the drivers of performance (e.g. new market entry, service quality, customer loyalty, employee engagement).
- Performance of both individuals and departments (or regions) is directly linked to the growth strategy and successful execution.

- Company scorecards should provide a balanced perspective based on the needs of key stakeholders groups and/or major organizational processes – internal operations, value provided to customers and employee development.

Let's assume that the overall strategy of a firm is to grow the core business and that growth will be achieved through increased market penetration of existing products. What are the drivers of growth that must be measured, monitored and managed?

This question is best answered by those directly involved. Precise measurements are not always possible but proxy indicators established in a thoughtful and open manner are. Let's assume that increased market penetration will be driven by the strength of the company's brand and customer loyalty. But what drives customer loyalty and brand strength? Is it the quality of service provided, the reputation of the sales staff or the depth of knowledge of the customers' business and requirements?

When there is a reasonable level of confidence that the above questions have been answered, the process shifts to (1) how and when will performance be measured, (2) how will those directly responsible access the performance measurement and (3) what follow-up action, if any, is necessary?

Performance management systems based on the processes described are becoming more evident in successful organizations. A brief description of the approach RBC Banking uses follows.

Leaders in the Banking Group have utilized performance scorecards to link execution with overall business strategy for a number of years. The scorecard has been aligned with four major stakeholder groups – customers, employees, shareholders and the communities in which the bank resides.

The focus is on measuring and monitoring leading indicators – for example, the drivers of customer loyalty, employee engagement and financial results. Considerable input from many sources is solicited before these measures are set and appropriate action undertaken to continually improve performance.

3. **The third key ingredient of a supportive infrastructure is Leadership.**

Who are leaders and what do they do? Leaders are people throughout the organization who influence the attitudes and actions of colleagues. As such, they help colleagues understand the many why's of organizational life. For example:

- Why the organization must perform at a high level in the increasingly competitive and global business environment.
- Why barriers to cross-departmental collaboration are harmful and weaken the organization's ability to adapt.
- Why, when a colleague's performance appears to fall short, it may be preferable to view this as an opportunity for learning and professional development rather than expulsion from the organization.

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- Why the ultimate success of the organization is rooted in its ability to continually be innovative in delivering value to customers.

Leaders are found at all levels in organizations, including, non-titled, non-managerial positions. They are best identified by their behaviours and influence rather than the hierarchical position. Together, such leaders create a network that reflects the very essence of their organization – 'who we are, where we're going and how we'll get there'.

Such a perspective on leadership significantly differs from the more traditional 'leader as hero'- the person who fires-up the troops, leads the charge and performs 'heroic' feats.

3.17 EMPLOYEE DEVELOPMENT PLANS

Employee development is a joint initiative of the employee as well as the employer to upgrade the existing skills and knowledge of an individual. It is of utmost importance for employees to keep themselves abreast with the latest developments in the industry to survive the fierce competition. Believe me, if you are not aware of what is happening around you, even before you realize you would be out of the game. As they say there is really no age limit for education. Upgrading knowledge is essential to live with the changes of time. Employee development goes a long way in training, sharpening the skills of an employee and upgrading his/her existing knowledge and abilities. In a layman's language, employee development helps in developing and nurturing employees for them to become reliable resources and eventually benefit the organization. Employees also develop a sense of attachment towards the organization as a result of employee development activities.

Organizations must encourage their employees to participate in employee development activities. Employees also must take skill enhancement or employee development activities seriously. Do not attend trainings or other employee development activities just because your Boss has asked you to do so. Don't just attend trainings to mark your attendance. You just cannot use same ideas or concepts everywhere.

It is excellent, if you know Microsoft Excel or for that matter Microsoft Word. Remember simply knowing few basic functions of MS excel would not help you in the long run. It might help you in the short run. Excel is not just to store your required data. There are many other formulae and advanced applications which one should be aware of.

Enhance your skills with time. Employee development can also be defined as a process where the employee with the support of his/her employer undergoes various training programs to enhance his/her skills and acquire new knowledge and learnings. Every organization follows certain processes which not only help in the professional but also personal growth of an employee. Employee development activities help an employee to work hard and produce quality work.

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Examples of Employee Development Activities

Professional Growth

Employee development activities must be defined keeping in mind an employee's current stage and desired stage. Knowing an employee's current and desired stage helps you find the gaps and in which all genres he/she needs to be trained on. Human resource professionals must encourage employees to participate in internal or external trainings, get enrolled in online courses to increase their professional knowledge and contribute effectively.

Personal Growth

Employees start taking their work as a burden only when an organization does not provide any added benefits or advantages which would help in their personal growth.

Soft skills classes, fitness sessions, loans with lower interest rates are certain initiatives which not only motivate an employee to do quality work but also help in employee development.

Employee development not only helps in enhancing knowledge of employees but also increases the productivity of organizations. Employees, as a result of employee development activities are better trained and equipped and work harder to yield higher profits.

Employee Development Plans

Employee Development refers to the steps taken by an organization to enhance the skills of an employee and motivate him/her to acquire new knowledge and leanings. Employee development activities upgrade an individual's existing knowledge, sharpen his/her skills and also prepare him/her to take up new opportunities in the future.

As a result of trainings and employee development activities, employees face adverse conditions, unforeseen situations and challenges with a smile.

Four steps employee development Plan

1. **First Step:** *Prepare an Employee*

No amount of trainings would help unless and until an employee realizes the value. An individual must understand as to why trainings are being organized? Remember, no organization would like to spend its money on non productive activities or something which would neither help the employees nor the employer. Your manager would not know what all new skills you need to learn? The success of employee development plan to a large extent depends on the employee itself.

Organizations must encourage their employees to think about their growth chart in the organization and how would they achieve the same? Each employee should

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be aware of his/her roles and responsibilities and how can he/she contribute more effectively towards the organization. It is always better if employees come up with their own development plans and what all new they would wish to learn for them to become versatile.

Human resource professionals can prepare various questionnaires which can be circulated among employees to know their opinion. Let your employees suggest you activities which will help them develop further.

The questionnaire can have basic questions like:

- Key responsibility areas of an individual
- Skills needed to perform his/her duties
- Major achievements
- Where does one see himself/herself five years down the line?
- New initiatives one would like to handle
- New skills one would like to learn

Such questions help the management know the current position of an employee and what all areas he needs to be groomed and trained ?

2. **Second Step:** *Plan Development Activities*

Once you have a rough-cut idea of what your employees expect out of you, start preparing development plans. A common development plan would not work out for all employees'. Every employee is different.

Organize various internal as well as external trainings keeping in mind the employee's requirements and how the training program would benefit him/her. Design the training programs in line with the organization's needs and demands. Encourage employees to sit with an open mind and interact with the trainer as much as they can. Mere one way communication makes the training boring and nothing productive can be derived out of it.

Encourage employees to work in teams. Individuals do train their counterparts on jobs. Ask individuals to train their fellow workers. This would not only train other employees but also make the trainer proficient. Motivate employees to learn from each other. Allow employees to discuss their work on an open forum once in a week. Such activities help in information and knowledge sharing.

Employers must sit with their employees to understand how certain jobs can be redesigned for an increased output. Let employees come out with innovative ideas. Acknowledge and appreciate their new concepts and suggestions.

Give additional responsibilities to employees. Ask them to represent their teams, prepare reports, track their team's performances and so on. Make them accountable for their team's performance or new processes. Let them take charge.

Let employees assist their managers in day to day work. Team leaders can take their team members for business meetings or crucial deals once in a while. Taking them out for meetings and providing them the chance of interacting with clients will give them the necessary exposure.

3. **Third Step:** *Performance Monitoring*

You need to keep a track of what your employees are up to? Proper feedbacks are essential. Sit with your employees after each quarter and review their performances. Give them necessary suggestions as to how they can improve their performance. If they have not performed well once, do not shout on them or demotivate them.

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4. **Fourth Step:** *Create Confidence*

Trust your employees. Make them feel that you are there with them. Don't always count their mistakes; rather appreciate them whenever they do something extraordinary. Support your employees to expect loyalty in return.

3.18 SUCCESSION PLAN

Developing a good succession plan should be a key part of your business' growth strategy and the risk management process. A well-structured succession plan, created well in advance, is always more likely to succeed and is likely to have more long-term value than one that is simply allowed to grow without a plan. Having a succession plan in place:

- enables you to establish and progressively build up equity in your business
- helps you to attract and retain the best staff who are committed to the business, which in turn should result in increased productivity and loyalty
- ensures a smooth transition with less likelihood of disruption to operations
- clarifies authority and decision making
- maintains accountability and ensures the health and stability of the business
- maximises the value of your business and enables it to meet future needs
- sets you on your way to building a non-principal dependent practice, thus increasing the capital value and the attractiveness of your business to potential buyers.
- enables you to handle short-term emergencies when a key member of staff leaves or is ill.

These benefits are so important to any business owner who has conceivably put tens of thousands of hours of dedicated effort into developing and growing the business.

Effective succession planning enables you to enjoy the fruits of your labour.

Business succession explained

Explained simply, succession is best described as the transfer of both management and control within a business. It does not necessarily mean a complete exit from ownership, but it does mean an exit from management.

Succession can be described more definitively as having three dimensions:

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- **Ownership succession** focuses on who will own the business, and when and how that will happen. The ownership succession plan enables the business to be 'groomed' attractively to ensure it is seen in the best possible light and gets the best price, if you plan on selling.
- **Management succession** focuses on who will run the business, what changes will occur, when they will be accountable for results and how results will be realised.
- **Internal succession** is a disciplined means of nurturing, developing and retaining talent as a platform for an owner's eventual transition from management and, in many instances, from ownership. A well-executed internal succession planning process creates an environment that ensures the best people have been chosen wisely and groomed appropriately to lead the business into the future.

Preparing for succession

The value of a business is directly impacted by risk, both existing operational risk and potential risk associated with disruption to the business through a change in ownership and/or management. A well-crafted succession strategy identifies and mitigates these risks.

It is in your interests to do this regardless of whether you decide to sell the business outright, or retain equity and continue to receive a share of the profits after withdrawing from management.

There are eight main steps involved in succession planning:

- Determine the strategy
- Benchmark the business
- Risk analysis
- Option analysis
- Ownership and structure
- Personal planning
- Implementation
- Mentoring and support.

Putting succession planning into practice

In order to put these steps into practice, include the following in your preparation:

- Have a clear vision for the business. Unless you have a vision, you can't know what kind of leaders to identify and develop.
- Strengthen the business model and focus on sustainable profit.
- Make yourself redundant. Delegate and allow others to make decisions.
- Have your business valued and draw a line in the sand. A 'proper' valuation can provide you with a solid insight into how much, or little, needs to be done to bring the business to the 'aspirational' price you have set for it.

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- Understand your industry dynamics and ensure that the business is sustainable against these volatilities. Take into account workplace and industry trends and predictions.
- Consider who needs to be involved in the development of your succession plan.
- Identify the skills currently held by people in key positions.
- Identify successors (people who are ready, willing and able to take over in full or part) in place.
- Enlist professional help where needed.
- Link your business strategy (both current and future plans) to talent requirements.
- Involve your top executives or managers and gain their commitment to growing talent for the business.
- Identify the talent in your business and invest in those people.
- Plan for continuity in the transition period and for when you exit the business.
- Have a contingency plan (in case the unforeseen happens and your intended successor declines the role).

Benefits of Formal Succession Planning

Formal succession planning is a systematic approach for preparing employees at lower levels to handle the responsibilities of next higher levels in the coming years. The process involves a lot of serious planning and careful HR forecasts in identifying the capable employees who have the potential to be promoted to next level in the hierarchy.

- It provides a logical approach for succession of top notch positions by the next lower-level employee. It is all about identifying the skills and competencies and potential of an employee so that he or she can be deployed at different jobs in the time of crisis.
- Succession planning gives the answers to all the questions regarding preparing an individual for the next level in the organizational hierarchy. It helps HR specialists in knowing and understanding why a specific individual should be developed and trained to promote to the next level.
- It reduces the randomness in organization's processes and managerial development movements and establishes formal steps and actions, policies and procedures to support the process of selecting the CEO and other top management executives.
- A formal succession planning process is a proactive approach to fill a top position. It helps HR professionals to anticipate problems in the process before they get started. This is very important to avoid negative and dysfunctional situations.

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- It fosters cross-functional development and facilitates the integration of HR planning components, processes and procedures. Not only this, it supports connecting formats, guidelines, analyses, judgments and discussions at their front.
- Formal succession planning helps in further exploitation of computer systems, HRP software applications, HR tools and techniques in order to support the identification, development and training of the individuals.
- It helps HR managers in overcoming the limitations of reactive management approaches and fosters pro-active management approaches to make organization a better place to work.
- It establishes a logical basis for making choices among qualified candidates. Who should be selected, why they should be selected and what skills and competencies they own and what needs to be developed in them are critical factors while identifying the employees for succession planning.
- The process establishes a specific connection between the business objectives and HR strategic planning. Along with this, it also increases internal promotion opportunities.

3.19 WARDING OFF ORGANISATION FROM SIGNS OF SLOWING AND LOSING

Fast-growing companies can often be chaotic places to work. As workloads increase exponentially, approaches which have worked well in the past start failing. Teams and people get overwhelmed with work. Previously-effective managers start making mistakes as their span of control expands. And systems start to buckle under increased load.

While growth is fun when things are going well, when things go wrong, this chaos can be intensely stressful. More than this, these problems can be damaging (or even fatal) to the organization.

McGraw-Hill Research published a study of 600 companies in 16 industries over a 5-year period that included a recession. Researchers concluded that firms that chose to maintain or increase their marketing budgets experienced sales growth that was 256% higher than those companies whose advertising suffered. Furthermore, those who cut back on their advertising realized a small increase of only 19% in that same time period.

Here is another lesson learned from the last recession: The 25% of companies that increased their marketing budgets saw an increase in market share that was 2.5 times greater than competitors who cut back. But that's not all you need to know. The following are the key lessions learned from the recession:

- Companies that don't adjust their marketing to the new economic environment suffer.

- Businesses that follow the direct marketing model trump those who rely on traditional advertising.
- Historically, companies maintaining or increasing their direct mail marketing through economic downturns increase sales and market share during and after the slow period.
- Businesses that regard direct response advertising costs as investments rather than expenses enjoy higher long-term dividends.
- Companies that stay aggressive in a downturn seize market share from more timid competitors.
- Companies that cut back will lose revenue and opportunities, with fewer upsells and cross-sells for several years after the recession profoundly impacting the bottom line in the long-term.

Now let's look at the 9 survival strategies you should implement now.

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Strategy 1: Re-examine your current marketing initiatives

Image advertising is a waste of your time and money, especially in a time like this. If you're not using advertising that provides a measurable, quantifiable cost per lead, cost-per-sale and lifetime value of a customer, you're practically throwing your money away.

You absolutely must know your:

1. Cost per lead
2. Cost per sale
3. Lifetime value (LTV) of a customer

In a recession, it is more critical than ever to hold every marketing campaign accountable. That's the only way to know how you should react in a down market and get the maximum impact for every single dollar spent. For example, the lifetime value Publisher's Corner of a customer tells you exactly how much you can afford to spend to acquire a new customer. Without these statistics, it is impossible for you to know whether you're making the most profitable use of your marketing budget. It's the only way you'll know whether you're getting a positive or a negative return on your investment.

Strategy 2: Review your Unique Selling Proposition (USP)

A powerful USP will grab prospects' attention, distinguish you from competitors and draw them into your story. Now is the time to review and revise your USP. If it doesn't tell your prospects how they will benefit from your product in today's downturn and distinguish you from the competition...chances are you'll become irrelevant. Your USP needs to be prominent, easily found and up-to-date in all of your marketing-TV, direct mail, website, you name it.

Tip: Before sending out your next campaign, take the time to review and revise your USP. Then place it at the beginning, middle and end of every marketing piece you create.

Strategy 3: Address marketing evils with preemptive copy

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Marketing evils are the barriers that stand between your customer and their decision to buy from you. They create skepticism towards your product. Today's marketing evils include:

- Economic crisis
- Recession
- Competition
- Legal and regulatory changes
- Budget cuts
- Unemployment.

When money is tight, fear of making a poor purchasing decision is high. Prospects will question what you say and raise more objections that prevent them from buying. Don't ignore the worries, fears and concerns that are plaguing your prospect. Instead, use preemptive copy to address and overcome prospects' skepticism.

Well-executed copy for this recession will achieve the following 4 goals:

- Address and dismiss your prospects' objections.
- Demonstrate how your product solves their most pressing problems.
- Explain why your product is absolutely necessary-even in an economic downturn-and why it's in your prospect's best interest to buy now.
- Clearly demonstrate why an alternative choice is not going to cut it.

Tip: Ask yourself these questions: Do I feel that the writer cares about me and understands my problems? Why should I respond now or later? Do I still have objections?

Addressing these evils and explaining why your product overcomes them will boost your response. Likewise, ignoring these evils will depress your response.

Strategy 4: Take advantage of dropping marketing costs

Media spending is plummeting and we haven't hit the bottom yet. As a result, online and offline media costs are dropping-and, in some cases, this trend is likely to be long-term or permanent. Here's where I've successfully helped marketers with cost-cutting negotiations:

- Printing
- Media costs
- Lists
- Postal discounts
- Media options

The price of radio and TV time has seen deep cuts-which may be why the ubiquitous Snuggie(TM) ads aren't confined to late-night TV spots. In addition to lower costs, you'll find deals and opportunities never seen before. For example,

many local newspapers and even The Wall Street Journal are selling ad space right on the front page.

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Strategy 5: Reevaluate your offer and make it preemptive

In this recession, consumers are hunting for the best way to get more for their money. It's critical to update your value proposition so that it's powerful and preemptive: It should answer prospects' questions before they ask them and overcome their objections. Remember, your offer is not about the product-it's about the prospect and what the prospect gets. The strongest offers reinforce value. They focus on the deal that the prospect will receive and present a get-more for-your-money image.

Here are 3 components of a successful offer:

1. *A discount or price reduction.* Right now people are looking for value, and a discount is the simplest way to deliver it. Just look at the most successful catalogs, emails and mailing pieces. You'll find discounts in every one, from consumer retailers like J. Crew to B2B marketers like Thermo Fisher Scientific. Even designer makeup and beauty products are on sale, which is rare.
2. *A premium.* It's a gift, a bribe, a strong enticement: Add value by giving something away. This can help you justify a higher price, if you are unable to offer a hefty discount.
3. *A guarantee.* Reassure your prospects that they have nothing to lose. If you don't have a guarantee, now is the time to start one.

Convince prospects that they'll be losing out on something big without accepting your offer - recession or no recession.

Strategy 6: Concentrate on your database

For most marketers, 20% of your customers represent 80% of your profits. Any significant loss of this core group could mean a serious hit to your sales, profits and future. Remember, it is always three to four times cheaper to upsell or crosssell an existing customer than to acquire a new one.

That's why you should implement these customer-retention strategies:

- *Upselling and cross-selling.* Reevaluate your current process. Are you being aggressive enough in offering products or services that complement your prospect's purchases?
- *Loyalty programs.* It is more important than ever to reward your best customers with extra perks to keep them coming back. Creating an exclusive club for loyal customers is also effective.
- *Conversion series.* If you offer a free trial, be sure you have a professional follow-up direct marketing conversion series in place to convert these prospects to buyers. Many marketers make the mistake of letting qualified, interested prospects slip away easily. See the chart above for an example of a conversion series time line.

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- *Retention series.* Don't wait around for your customers to renew subscriptions, reorder products or come in for your services-remind them of your value, and reinforce their decision to purchase from you.
- *Database lead management.* If you don't convert those hard-earned leads to sales, you're wasting your marketing efforts.
- *Reactivation campaigns.* Use your improved, preemptive offer, complete with premiums and discounts, to entice former customers to come back. Craft copy that demonstrates why your product is the best choice right now.

Strategy 7: Revamp your corporate website

Static corporate home pages do nothing to encourage sales or improve your results. Yet so many marketers still rely on these non-marketing or anti-marketing sites. Instead, turn to direct marketing microsites and landing pages: Individual websites geared toward specific products and promotions. These sites use only direct response copy and art to sell a product or service. To improve efficiency and boost response, they don't have navigation distractions. For example, you may want to create unique pages to capture leads and sales, or develop a product-specific sales page.

Strategy 8: Streamline your shopping cart to boost sales

It's a fact: 7-1/2 out of 10 online prospects will abandon their shopping cart before completing a purchase. Here are 2 big mistakes to avoid.

- **Mistake 1:** "Tombstone" carts. This is what I call shopping carts without sales copy. They're a dead-end. Your cart should engage prospects, reassure them that they are making a good decision and lead them right to the "Buy Now" button. It must have direct response sales copy and direct response art.
- **Mistake 2:** Multistage process. The more you ask your prospect to click, the more sales you'll lose. A one- to two-page seamless checkout process is more effective and efficient than a multistage process. Prospects will be less likely to have second thoughts and click away. Above all, keep it simple.

Strategy 9: Reevaluate your media

Be sure to put your recession appropriate USP to work in all campaigns-including online and broadcast media.

- *Direct mail.* You're still able to produce a low cost per lead or sale with this highly targeted medium...even in a recession. It should be a major component of any marketing mix.
- *Paid search.* Easy paid search is dead in this recession. But the right mix of keyword strategy, powerful direct response ads and separate, dedicated landing pages with timely content will produce a very high ROI-although the numbers will be a very small part of your overall lead generation and sales program.

- *E-mail.* The days of sending a sales letter via email are over. Sales hype will not work. Instead, use an information-driven, content-rich email. Remember value.
- **TV and radio.** Rates for prime airtime have been dropping, so now's your chance to renegotiate rates and retest your options, such as time of day.

What worked last year is not going to work now because the market psychology is completely different. Opportunities for success are out there, if you know where to look. Remember that your prospects' spending patterns change in a recession, but they'll still be spending money somewhere.

Consumers may start to give up trips to the coffee shop in favor of a do-it-yourself espresso machine. Businesses may choose new software instead of new hardware, or invest in extra tech support to avoid an expensive technology meltdown. With these strategies, you can turn this recession into an opportunity for growth, profits and greater market share.

Case Study: The Magic of Ford

In 1903, in a small wagon shop in Dearborn Michigan, a man by the name of Henry Ford started what is today the Ford Motor Company. It started it in 1896 when Henry Ford built his first car. It was only experimental at the time, but less than ten years later in 1908 he introduced a more updated version to the public. This became known as the Ford Model t. Once people realised what a wonderful novelty this was and how it would greatly facilitate their lives, there was a huge demand for them. In order for the company to be able to satisfy this heavy demand, ford introduced the world's first assembly line for cars. It revolutionised the industry. By 1923, more than half of America's vehicles were made by Ford. Today, the Ford Motor Company the number two company in its industry as well as the number two industrial corporation in the world. When the average person thinks of the Ford Company, they think of just Ford. This thinking, however, is incorrect. Ford is divided into four major components, automotive, Ford credit, Visteon and Hertz. Ford also produces vehicles under the names of Aston Martin, Ford, Jaguar, Lincoln and the Mercury and Volvo brands.

Recently, Ford profits have increased significantly, for the nine months ending 30/09/06; total revenues increased 9% to 127.48 billion dollars. Net income from continuing operations decreased 10% to $4.32 billion dollars. Results reflect increased vehicle sales offset by higher warranty and costs related to the Firestone recall. Last year's total sales went up 13% to become 163 billion dollars

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and profit also rose 10% to become $7.2 billion dollars. As far as Ford Motor Company can remember, this is more than any other car company ever. Ford's main automotive competitors are General Motors, DaimlerChrysler, Toyota, Honda, Nissan and Volkswagen.

One of the ways that Ford has established its spot as the number two company in the automotive market is its focus on customer satisfaction. Ford Motor Company admits that its greatest asset is the trust and confidence earned from its consumers. When people see a Ford trademark, Ford wants them to associate that with a trust mask of certitude, quality, reliability of performance and value. Ford strives to connect with their customers as well as reach them. They try to use relationship marketing, because it is cheaper to keep an old customer rather than to attract new ones. William Clay Ford, Chairman of the the Board for Ford Motor Company says that satisfying customers goes beyond great products and services. People want to do business with companies who care about them and their environment. He realises that the best cars are socially and environmentally responsible. Chief Executive Officer, Jacques A. Nasser states, "we will be a leader in corporate citizenship, if we are a well trusted company that people believe contributes positively to a society and uses its resources to create a more sustainable world." Jim Vannier, Manager of Ford's advertising and marketing programs admits "if you listen to your customer, if you provide the right product at the right time, you'll get the numbers". The above quotes make it quite obvious that the top executives of the company all concur that customer satisfaction is of the utmost importance in succeeding. If they keep the customer happy, the customer will tell the others they are satisfied, and more and more people will be willing to consume their product.

Here and Now

The twentieth century was profoundly affected by the innovations of Henry Ford. The inventions of the automobile gave opportunities to multitudes of people. These opportunities were not just in transportation, but in occupation as well. Today, no matter where a Ford is produced, the consumer knows that they are receiving a high quality product. The reason for this is that the majority of Ford vehicles parts are designed by Ford engineers, manufactured in Ford plants and assembled in Ford product lines. When you purchase a Ford product, you are truly purchasing Ford quality. Ford is the number two manufacturer of automobiles, second only to the General Motors Corporation.

This case highlights certain strategies of this corporation that propelled it to its current number two spot in the market. There are many aspects of marketing strategies that will be discussed in this case such as, product strategies, promotion strategies, pricing strategies as well as internet marketing and other forms of product distribution. Each one of these strategies plays a key role in the success

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of the number two motor company in the automotive industry. Many people tend not to realise just how important the marketing of a new product can be. It plays a huge role in the success or failure of the new product. For example, many people may remember many years ago when Ford came out with a new vehicle called Edsel. The Edsel became known as one of the Ford Motor Company's lemon. Although the thought of such an odd-looking car does not sound appealing, it is said that the look is not what caused its downfall. Surprising as it may sound, the demise of this vehicle was due to poor marketing strategies. Ford's biggest mistake in marketing the Edsel was their failure to decide on their target market. They tried to market their product to everyone, and with such a large span of people this was next to impossible for becoming a success.

Objective of the Company

The mission of the Ford Motor Company is very basic. Ford sees their customers as one of the most important things; they know their customer satisfaction also plays a gigantic role in their success. "[their] mission is to improve continually [their] products and services to meet [their] consumer's needs, allowing [them] to prosper as a business and to provide a reasonable return for [their] stockholders, the owners of the business. Their mission shows their devotion to constantly improve and while improving, accommodate their customer's needs. Ford's five main principals include, 1) Quality: they put the quality of their products first and foremost. Without a quality product, people have no desire to waste their money or jeopardise their safety. 2) Customer Care: of you don't take care of the Customer, someone else will. 3) Constant Improvement: if the Ford Motor Company allowed themselves to remain stagnant in their environment, their competition would eventually have a huge advantage over them, because they would have newer and better product lines to offer. 4) Employee Involvement: Ford wants each and every employee to be involved in their company. The happier the employee, the better they work. It is all about feeling that they are a part of the Ford team. They also want their employee to think like a consumer, they can cater more to the needs of their actual consumers because they will know what the consumers want. 5) They consider dealers and suppliers to be their partners: without the dealers and suppliers Ford would not be able to manufacture the things they need alone and therefore would not be able to produce as many vehicles as there would be a demand for or even be able to distribute them all to people.

The Arena

Ford has many competitors. Since Ford is ranked the number two companies, its main competitor is quite obviously the number one company, General Motors Corporation. General Motors, also an American Company holds 29.4% of the automotive market share while following close behind them the Ford Motor

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Corporation holds 25.1% of the top 5 best selling cars in 1999, Ford Taurus appears as number three and Ford Escort appears as number five in a recent survey. The automotive industry has fierce rivalry among its competitors. In the past years the following mergers have occurred- Daimler Benz acquired Chrysler and Ford bought Volvo in order to be able to properly compete with General Motors, this way Ford is not allowing General Motors to become too much larger than they already are. If General Motors develops a new feature or automobile, Ford must be right behind them with their most innovative invention, and vice-versa.

Ford has 25.1% of the market share presently. This is quite impressive considering that the number one automotive company, General Motors, also an American company has 29.4%. This means that the top two companies hold more than 50% of the market share. This is quite extraordinary. The total market value of the Ford Motor Company is approximately $56 Billion Dollars and their profits are well over $7 Billion. In 2005, Ford sales raised up to $163 billion dollars. This was a thirteen-percent increase from the previous year.

The Catch

A car, if not properly assembled, maintained, and operated can become a deadly weapon. The United States government regulates many aspects of the auto motive industry. Among these regulations are seatbelts, airbags and shatter proof windshields. The government has also made inspection and maintenance programs more expanded, in order to include more areas and allow for more stringent tests. In 1990, the government amended the Clean Air Act. The main focus of the Act was to cut down on all the urban smog, carbon monoxide and particular emissions from Diesel engines and to help decrease acid rain and toxins that is contributed by motor vehicles. The amended Act demands that polluted cities must sell improved gasoline that helps to reduce ozone forming hydrocarbons and carbon monoxide. Once inside an automobile, the operator of the vehicle is responsible for obeying many regulations as well. It has become extremely important, for instance, to wear your seat belt. Primary enforcement seat belt laws allow police to stop and ticket a driver for not wearing a seat belt, just like any other traffic violation. Seventeen states and the District of Columbia have enacted these laws. The remaining 32 states have secondary laws that allow law enforcement to ticket a driver for not belting up only after the person has been stopped, or ticketed, for another violation, and one state does not have any seat belt law. Obviously, safety best laws work, and the public overwhelmingly supports them. Three out of four Americans supports safety belt laws, according to a recent public opinion survey. Stronger safety belt and child passenger safety laws, and stepped up enforcement of those laws, are the most effective steps we can take to save lives.

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Corporate Responsibility Towards Society

Ford Motor Company sponsors many programmes to better the community and their safety. For example, in the Detroit area, Ford organised a weekend clinic in which the automotive safety office educated fifty-five people and their children on the proper use and installation of child safety seats. They demonstrated this in the consumer's actual vehicles. Ford is also committed to environment cleanliness. They sponsor programmes to educate our children on environmental cleanliness and responsibility. They also sponsor company-wide recycling, cleaner operating vehicles, recyclable components, cleaner manufacturing, and employee involvement in environmental activities. Ford do not do these things because they have to, they do it because it is the right thing to do. The Ford Motor Company not only is social active, but culturally as well. Ford provides financial support at many historically black colleges such as Tuskegee University in Albama, this is where the famous black inventor George Washington Carver performed many of his experiments. Ford Motor Company, as of 1999 has 23.2 per cent of its employees as minorities. This is up 1% from 1998. Diversity makes the business world go round and no one knows this better than the Ford Motor Company.

Innovation or Death

The Ford Motor Company values their product Analysts. [Their analysts develop product cycle plans that help forecasters determine [their] approach to different markets. The people who start the product cycle are called the research, Design Packaging and Financial analysts. The researchers find out what type of things that consumers would like their vehicles to be occupied with. The design packagers are the people who decide the most appealing way to package the final product. The financial analysts put the numbers together to figure out exactly how much money all of the above will cost. Next, designers and engineers along with testers actually create the vehicles. They create vehicles according to the specifications of the research, design packaging and financial analysts. This way they are producing what the market wants. The research and Advanced technology Teams then decide which technologies should be used in the new products. Ford is constantly trying to improve their product development and expand their innovations. Currently, Ford is working on a new line of intelligent vehicles. These vehicles will enable the driver, through voice activation, to connect to the internet. The voice activation will also be implemented into the navigation system, heating and air-conditioning, cell phones, audio systems, and other electronic things inside the automobile. Ford is adapting to each change in order to be able to bring their customers the most innovative and convenient products possible. As soon as new technology becomes available, Ford Motor Company is among the first few to try to implement it into their vehicles.

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Product Targeting

Ford motor company has different types of cars, which are each targeted towards many different markets of people. As the company learned the hard way with the Edsel, the importance of a target market is extremely high. Loss of a target marketing focus usually means loss in sales. Ford has a different car targeted towards different age groups, personalities, genders and economic standing and more. The Ford Mustang, for example, is targeted mainly at the middle aged. This is exhibited by its slogan of it is what it was and more. This implies that the target consumer would be old enough to remember what the Mustang was when it first came out in the 1960s.

Another example is Ford trucks. Their slogan is "Built Ford Tough". The toughness implies a target towards rugged men. Because of the fact that the word "tough" is used, it seems that it would be very unlikely that the Ford Motor Company would be using that to attract women. When the word tough is thought of, women are generally not the first thing that comes to mind. The third and final example is the Ford Taurus. Its slogan is "Ford makes it smart to buy American." The target market for a Ford Taurus is a family. The Taurus station wagon for instance is a great family car with tons of room, yet it handles like a sports car. The above three examples are only a small sampling of what Ford offers. Ford motor company manufactures sedans, SUVs, trucks, luxury cars and more. If you are looking for it, the odds are that Ford will satisfy you.

Product Mix

The Ford Motor Company has such a wide selection of vehicles in order to satisfy every different type of potential consumer. They offer small cars, sports car, midsize cars, luxury cars, vehicles, convertibles, wagons, minivans, vans, trucks, commercial trucks, and even environmentally efficient cars. Each of Ford's different types of vehicles have many different options that came along with them the 2001 Explorer for example, runs to roughly $25,715 dollars, without any extras. However, should the consumer decide that he or she would like to add perks, there would be many choices. For instance, in the convenience group of options, you can add anything from a cargo cover to speed control. In the XLS sports group anything from chrome steal wheels to wheel mouldings. There is even a trailer tow prep package, which includes a wiring harness and an H.D. Flasher for only $355 dollars extra. After that the consumer has the option to add even more options. They can customize the engine, transmission, drive, rear axle, wheel type, tire type, seat equipment and much more. The company also offers the Explorer in 10 different colours for the exterior. With the plethora of the above options, how could anyone not find what they are looking for? Each one of the 24 cars manufactured under the Ford name has many options as the Explorer, if not more.

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Services Offered

When you own a Ford vehicle, you can register for Owner's Services. This includes reminders of when your vehicle needs to be services, tips for vehicle safety, maintenance information, does it yourself pointers and online manuals. It also includes warranty guides, offers and discounts exclusive to people registered for the service, online shopping, private communications, and links to Ford Company Specialists. Ford, Lincoln, and mercury dealerships specialize in the servicing of their own vehicles. The dealership is a wonderful place to go to have your breaks served, shocks replaced and batteries as well. The company also offers Extended Service Plan (ESP). With the extended Warranty Plan and the factory unlimited Warranty; you are able to choose a plan that suits your needs. The way the plan works is, you pay a small deductible anywhere from $0-$100. The Ford ESP cost protects the consumer from increasing prices in labor and increased prices in parts. Other services that are offered by Ford Motor Company area Customer Assistance Centres, Collision Assistance, Roadside Assistance, Technical Service Information and their website. The web site includes links to safety tips and Frequently Asked Questions.

Promotional Strategies

The current promotions that are offered by the Ford Motor Company are Radiator Service, Brake service, and Batteries. All of the above promotions are wonderful for the upcoming winter months. The radiator service includes, top of all fluids and a free 12pt all weather check of hoses, clamps, belts and more. This promotion and all of the above promotions appeal to people who are thinking ahead to cold winter months. This winter in New York has been predicted to be one of the worst we have seen in a while. A radiator is not actually something you would want to break down in the middle of a snowstorm. The battery promotion is offering a Motorcraft tested, though series battery. They are also offering a Silver Series Battery for only$20 dollars more. Each promotion for a new battery comes with over an 83-month warranty. It is a good idea to replace your battery before a new winter season. When it is freezing outside, trying to find a Good Samaritan who is willing to give you a jump is a rarity. The Brake Promotion comes with the Motorcraft brake service. This promotion includes replacement of brake pads or shoes, front or rear turn rotators and drums. This promotion will also check the brake's hydraulic system and repair, if necessary. This once again appeals to the person(s) who is preparing for the harsh winter to come. Being that, a bad winter generally means a lot of snow and ice. With weather conditions like that, who needs to worry about brake failure?

Pricing Strategies

One of Ford's pricing strategies is the fact that they try to help the consumer finance a Ford vehicle. Ford offers its consumer many plans to choose from in

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order to find the financing option that best fits their needs. The following are only a few of Ford's financing options. The first is the Red Carpet Lease: the consumer is offered flexibility for payment; there are advance payment plans and Additional payment programmes, depending on which one is best for you. The second financing plan is mobility financing: mobility financing offers flexible and convenient financing terms for their physically challenged consumers who need adaptive equipment in their vehicles. The finance rate is based on your credit and the terms of the transaction. Ford credit has earned a top ranking place in the world of automotive finance by providing loans and leases that are convenient and affordable. They also specialize in service such as commercial lending and municipal financing.

The municipal financing is so convenient that it can be calculated on the internet. All that needs to be done in order to do this is, select a vehicle, model, make, and product line. The online calculator will give the consumer an estimated lease and retail payment. Ford financing company provides a variety of products and services to both, the dealers and the consumers. Ford credit also has a commercial lending operation, which caters to light truck fleets and heavy trucks. Ford wants to make it as easy as possible for consumer to be able to drive a Ford. There are so many different financing options that are offered, that finding a plan that is right for you has become easier than ever. If buying a new vehicle is not financially possible, then Ford also offers a whole line of pre-owned vehicles, which are backed by Ford Motor Company with a 100 point inspection.

Distribution Internet Marketing

Ford's newest web site for Ford division cars and trucks is www.fordvehicles.com. The new web site allows perspective customer to compare Ford vehicles to other cars made by other manufacturers. They are the first company to give consumers the option of product comparison. The section of product comparison on the web site comes complete with photographs, feature description, safety options, competitive pricing, financing and warranty information. Ford division internet coordinator, Trisha Habucke states, "With our new design we incorporated new technologies that deliver more visually exciting content." The web site is so user friendly that consumers can just go right from one ford vehicle to the next without any trouble. Ford is committed to bringing their customers total brand experience.

For example, Ford knows that people with certain types of personalities are attracted to certain types of cars. Explorer drivers, for example are rugged, the "No Boundaries-ford outfitters" slogan appeals to them. When Ford began their internet market, they did the most extensive research even conducted by a car company. Their advertising agency, J.Walter Thomson found that 210 test participants concurred that the Ford website deserved a high rating for its complete content. Ford attributes a fair amount of the success to the internet. The

internet is a way reach millions of people. The company realizes that it has been a powerful tool for the internet. Erin Hughes, who is a Ford employee since 1999, admits that her greatest tool is the internet. Erin's Regional Manager realized that, if they had one person whose sole job was to be dedicated to the internet, the company would prosper.

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Erin later became the first internet customer satisfaction coordinator. In addition, Hughes started the first internet club for Ford dealers. Since the position of internet coordinator was now more common at Ford Motor Companies, once per month all of the internet coordinators get together to share their most recent e-commerce news and best practices. Hughes says "my job is to provide our dealers with the resources and technology needed to help them sell more vehicles on Main Street and E-street". Advertising also plays a large role in the distribution of Ford Motor Company's products. Ford advertises on television quite often and also on the radio. Previous slogans that ford had etched in everyone's minds include things like "Have you Driven a Ford Lately?" with a catchy little tune along with it. Ford also has their slogans and products photographs on major highway billboards across the county as well as scoreboards at sporting events such as during commercial breaks where the broadcaster will say something along the lines of sponsored by Ford Motor Company.

The Ford Motor Company has come a very long way, since Henry Ford first established it. They went from a little wagon shop to the second leader in automotive sales. They have been around for almost a century. Ford has elaborative marketing strategies as well as distribution strategies. Their web site was extremely easy and fun to use. Ford is also a very well rounded company in that they are very environmentally concerned. It is nice to see that people realized, if we don't save our planet now there will be nothing left for future generations. With Ford's experience and high understanding of, and ambition for the satisfaction of the customer, can they someday be the number one automobile company, beating out the General Motor Corporation?

Questions

1. Asses the reasons for the growth of the Ford Company.
2. Interpolate from the case the clout that the company has in the world economy.
3. Assess from the consumer's perspective the performance of the company's product.

Source: *Docstoc.com*

3.20 RESOURCES FOR GROWTH

The business plan plays a key role in allocating resources throughout a business so that the objectives set in the plan can be met. Once you've reviewed your progress

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to date and identified your strategy for growth, your existing business plan may look dated and may no longer reflect your business' position and future direction.

When you are reviewing your business plan to cover the next stages, it's important to be clear on how you will allocate your resources to make your strategy work. For example, if a particular business unit or department has been given a target, the business plan should allocate sufficient resources to achieve it. These resources may already be available within the business or may be generated by future activity.

Once you know the goals, determine the physical and human resources, both internal and external, that you will need to accomplish them.

- Internal resources exist within the company but may need to be redeployed to achieve the new goals.
- External resources need to be acquired to achieve this goal, either permanently, such as a new hire or new equipment, or temporary, such as the services of a consultant or renting equipment.
- Human resources include people and expertise, both existing employees (internal human) or new hires, consultants or contract employees (external human).
- Physical resources include equipment required to achieve the stated goal, both already owned (internal physical) or new or rental equipment (external physical).

Remember to include pre-implementation costs in your planning, such as:

- developing promotional materials
- market research
- product design
- preparing interim financial statements for the bank
- cost accounting for a new project
- developing specifications for equipment or machinery
- installation or moving time (plan for a drop in production during the move and remember that a move almost always costs more and takes longer than expected)
- time taken for recruiting new staff
- time for orientation and training.

3.21 MENTOR FOR GROWTH (M4G)

Mentoring for Growth (M4G) assists firms to address strategic management opportunities and challenges. In Greek mythology, Mentor was an old friend of Odysseus, advanced in age, which Odysseus placed in charge of his son, Telemachus, when he left for the Trojan War. Mentor provided the son with knowledge and friendship to guide him in the absence of his father. This is the source of the modern

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use of the word mentor as a trusted friend, advisor or teacher, usually a more experienced person. Today, mentors provide their expertise to less experienced individuals in order to help them advance their ideas, grow their business, and build their networks. You can benefit from being part of a mentoring relationship, because a mentor is a person who:

- **Holds you accountable:** by sharing your goals with your mentor, you allow them question you and prompt you if you do not complete actions within agreed timelines or if you get off track.
- **Helps you refine your ideas into practice:** you will be able to discuss and evaluate your great ideas with someone with the experience to help you refine them and implement them.
- **Brings new ideas to grow your business:** a good mentor will be able to share experiences, expand your knowledge and educate you so that you understand the principles and can apply them again in the future.
- **Introduces you to the contacts you need:** your mentor has contacts they can share with you and knows where to find the information you need, whether it be for equipment, investment advice, or just growing your library
- **Brings an external view:** your mentor is on the outside looking in and is able to give you feedback and help you take a fresh look at your ideas and your business.

The Business Mentoring relationship operates on many levels, for example working on specific issues, creating strategic insights, motivating and encouraging. It is a relationship that has to be built on trust, respect, openness to new ideas and a willingness to learn. It is important, therefore to make sure there is the right 'fit' between **mentor** and **mentee**. To match a Mentor with a Mentee, it is important to establish all the necessary criteria in order to obtain the right skills, experience and personal attributes needed for a comfortable fit. Things that need to be considered include:

- How the Mentee is seeking to innovate, and the skills and guidance they need.
- The Mentee's personal characteristics and learning style.
- The business key issues and challenges for the future.

You have to carefully select Mentors for their expertise, alignment to the Mentee's criteria and their degree of flexibility and compatibility with the Mentee. Typically, mentoring involves a confidential relationship between the Mentor and Mentee, meeting in one-to-one sessions. On occasions however, it may be appropriate to include others, such as key staff or other owners or directors, particularly when the content involves their area of expertise. Mentoring panels are another form of mentoring in which the mentee is exposed to multiple view points and specialist knowledge. These panels are particularly helpful when you are innovating in several areas of the business or are seeking to access finance. Generally, mentors will seek to guide you by asking challenging questions and encouraging you to think

differently about your responses to opportunities. Mentors should not take the place of professional service providers who give specific advice in their area of expertise.

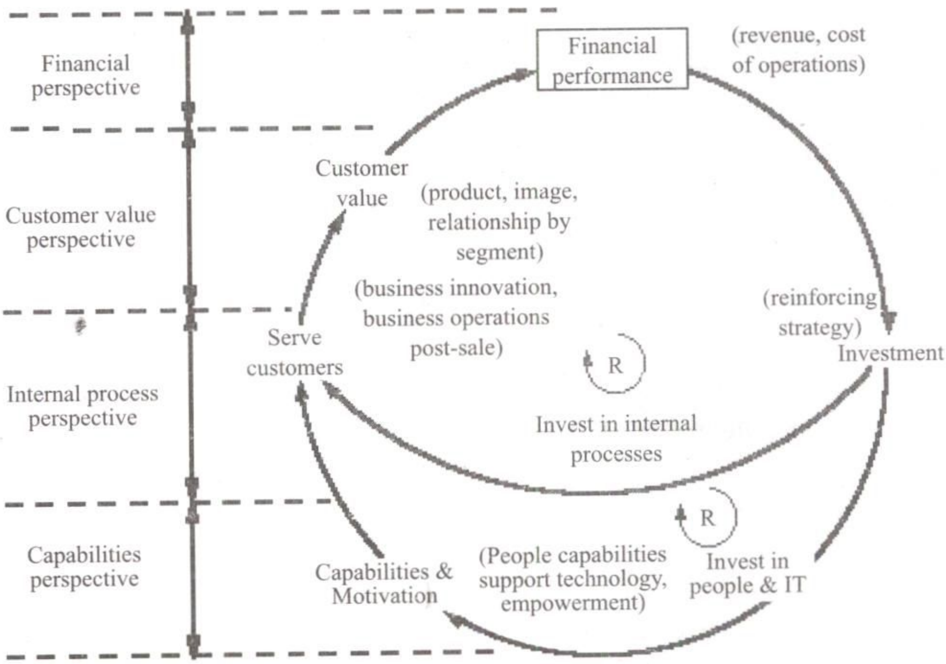
NOTES

3.22 GETTING FOCUS AND BALANCE

Organizations must ensure that they have clear processes in place to identify, select and prioritize growth opportunities, as well as to conduct rapid testing of new ideas. They also need to consider select strategic acquisitions that can help them quickly tap into new markets or customer segments, and consider divesting non-core or underperforming assets to free up cash. And, regardless of opportunities being pursued, companies must ensure every investment is well targeted in light of cash shortages. Companies that are deliberate and focused on driving growth tend to utilize one or more portfolio approaches for managing their growth initiatives. The intent is to ensure that investment dollars are not too heavily concentrated in any one area. Some common portfolio approaches include:

- The market risk/technology risk approach, which seeks to achieve an appropriate balance of market and technology risk for growth initiatives
- The time horizon approach, which distributes growth initiatives across the short, medium and long-term
- The options approach, which involves investing small amounts in growth initiatives to determine if further, more significant investment is warranted.

This approach enables an organization to develop an explicit strategy for growth and define measures to track strategy effectiveness.



Check Your Progress

Fill in the Blanks

5. ... ... means division of authority and powers downwards to the subordinate.
6. .... means being answerable for the end result. Accountability can't be escaped. It arises from responsibility.
7. A .... sets the platform for rewarding excellence by aligning individual employee accomplishments with the organization's mission and objectives and making the employee and the organization understand the importance of a specific job in realizing outcomes.
8. .... refers to steps taken by an organization to enhance the skills of an employee and motivate him/her to acquire new knowledge and leanings.

It's based on systems thinking principles to allow groups to achieve consensus on what to do and on what to measure. To achieve focus, the workshop examines the value chain and develops Balanced Scorecard-like feedback. It also draws on the systems thinking archetype, the Attractiveness Principle, the structure that explains the "no organization can be all things to all people" dynamic.

A workshop on strategy provides much-needed time to stand back and focus on strategies for improving organizational performance. They shift from explaining the past to learning about the future in a creative process that develops momentum for organizational change.

3.23 MONITORING GROWTH

Once you've drawn up your new business plan and put it into practice, it needs to be continually monitored to make sure that the objectives are being achieved. This review process should follow an assessment of your progress to date and an analysis of the most promising ways to develop your business. To find out more about these stages see our guides on how to review your business performance and how to assess your options for growth.

This process is called the **business plan cycle**. In some businesses, the cycle may be a continuous process with the plan being regularly updated and monitored. For most businesses, an annual plan - broken down into four quarterly operating plans - is sufficient. However, if a business is heavily sales driven, it can make more sense to have a monthly operating plan, supplemented where necessary with weekly targets and reviews.

It's important to keep in mind that major events in your business' target marketplace (e.g., competitor consolidation, acquisition of a major customer) or in the broader environment (e.g., new legislation) should trigger a review of your strategic objectives.

Regardless of whether or not there are fixed time intervals in your business plan, it must be part of a rolling process, with regular assessment of performance against the plan and agreement of a revised forecast if necessary.

3.24 SUMMARY

- Every organisation follows some pattern of growth. Some businessmen may experience no growth at all and may have to leave the arena soon. On the other hand there may be a few who experience slow growth while there may be others who feel that their business is expanding at a very fast rate.

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- A growth plan is different from a start-up plan, and a growth plan for a mature business in a stable market is different from one for a volatile business in a changing market.
- Strategists should strive to preserve, emphasize, and build upon aspects of an existing culture that support proposed new strategies.
- Core competency is a unique skill or technology that creates distinct customer value. For instance, core competency of Federal Express (Fed Ex) is logistics management.
- Frequent two-way communication helps each of us to fully recognize how we fit into our organization and carry out our mission of providing quality care.
- Strategic staffing begins with assessing your business's employee needs in the context of your business priorities. Hire employees based on your staffing strategy, which is a mindset rather than a process. Identify everything that may affect the efficiency and profitability of your business's operations — and not just in the short term.
- Growth Management Strategies can help you analyze your organizational goals to determine whether it appropriate to implement a broad-based team design, use a limited application of work teams or engage in team building for your current work groups.
- The most effective performance improvement program will be one based on continuous improvement, quality and an element of a pay-for-performance incentive reward.
- Employee development is a joint initiative of the employee as well as the employer to upgrade the existing skills and knowledge of an individual. It is of utmost importance for employees to keep themselves abreast with the latest developments in the industry to survive the fierce competition.
- Explained simply, succession is best described as the transfer of both management and control within a business. It does not necessarily mean a complete exit from ownership, but it does mean an exit from management. Once you know the goals, determine the physical and human resources, both internal and external, that you will need to accomplish them.
- Mentoring for Growth (M4G) assists firms to address strategic management opportunities and challenges.

3.25 KEY TERMS

- **Core competency:** Core competency is a unique skill or technology that creates distinct customer value.
- **Strategic staffing:** Strategic staffing is about more than just hiring more employees. It involves making the best staffing choices available to address the core business needs you have identified.

- **Decision-making:** Decision-making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem.
- **Delegation of authority:** Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.
- **Performance management process:** A performance management process sets the platform for rewarding excellence by aligning individual employee accomplishments with the organization's mission and objectives and making the employee and the organization understand the importance of a specific job in realizing outcomes.
- **Mentoring for Growth (M4G):** Mentoring for Growth (M4G) assists firms to address strategic management opportunities and challenges.

3.26 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Finance strategies are critical to the success of any growing enterprise yet business owners often avoid them because they do not fully understand this division. Finance is just like any other part of the business. It is essential to your success and it must be managed and planned.
2. Compensation management is something that companies must take seriously, if they are to achieve a competitive advantage in the market for talent.
3. Core competency is a unique skill or technology that creates distinct customer value. For instance, core competency of Federal Express (Fed Ex) is logistics management.
4. A programme is a broad term which includes goals, policies, procedures, rules and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation.
5. Delegation of Authority
6. Accountability
7. Performance management process
8. Employee Development

3.27 QUESTIONS AND EXERCISES

Short Answer Questions

1. What are the key stages of growth?
2. What are the competitive compensation programmes?

NOTES

3. Define core competencies.
4. What is decision-making?
5. What are the key elements of delegation?
6. What are the key objectives of performance management?
7. What do you mean by change management?
8. What are the key benefits of a good succession plan?

Long Answer Questions

1. What are the key elements of organizing an effective growth strategy?
2. Discuss the process of growth activation.
3. Describe the nature and scope of well thought out implementation plan.
4. How to build effective competitive compensation programme?
5. Discuss the significance of supportive organization culture in growth management.
6. Describe the importance of frequent two-way communication.
7. What do you mean by a team based environment? What are the key tips for effective team work?
8. What are the key elements of change management strategies?
9. What are the key employee development plans?

UNIT 4 SYNCHRONIZING FOR GROWTH

NOTES

Structure

4.0 INTRODUCTION

As your business grows you may dive into various business activities and ventures and this calls for a single minded effort from all your employees and allies. All resources must function like a well oiled machine and at no time lose focus or coordination. This calls for regular feedback and update mechanism among these resources and allies to keep the business on the growth track.

4.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Describe the synchronized efforts
- Discuss the Gareiner's model of crises induced growth
- Manage the growth fatigues and momentum of growth
- Build a high growth roadmap.

4.2 SYNCHRONIZED EFFORTS

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Once a business grows large enough to require separate divisions / units to support diverse lines of Business, the challenges and complexity of strategic planning and strategy execution begin to grow as well. As the business portfolio expands, strategic planning models must adapt and change with the growing business for optimal results to be recognized.

Diversified businesses operate on models oriented to product and/or service lines. Often these are organized into lines of business that are managed by executives controlling their own P&L structures. Their measurements for success are tied to that particular line of business, meaning that their markets are unique and their cultures and organizational structures may not mirror those of the parent company or the other business units within the company. Likewise, the challenges they must confront to turn a profit and sustain growth are also not necessarily the same as their executive counterparts in other divisions of the company.

Monolithic corporations comprised of multiple operating divisions need more granular approaches to strategy development, not a "one size fits all" approach. Ideally, the corporate strategy for a large and diversified business serves as the umbrella strategy that provides structure, goals and measurement for the business unit strategic plans to link back to as an anchor. The business unit strategies exist to propel results for their organization that will satisfy the overall corporate strategic goals.

Strategy is all about people. It is about the people that the organization serves through the execution of its mission. Strategy is also about the people within the organization that must execute the strategy. Customers, employees, partners and suppliers are known and understood better at the business unit level where they are directly linked. As such, strategic planners in the corporate organization must develop overarching strategic plans that leave room for the nuances of tactical execution to remain the business unit management team's responsibility.

Corporate-level strategic plans must cast the broad mission, vision and strategy in aggregate terms for the overall business, but it must also define strategic key outcomes that can be translated and measured at the business unit level (e.g., revenue growth, market share and profitability targets to name a few). Of course, business units must have strategic plans as well. Business unit plans should map back to the broader strategic goals defined in the corporate strategic plan while also relating line-of-business level strategic goals, objectives and tactics that advance the business unit strategy.

The relationship between the corporate-level strategic plan and the individual business unit plans form a synchronized structure that pushes and pulls the organization in one direction. At the same time, this symbiotic structure leaves the accountability for leveraging intimate knowledge of customers, competitors, employees and culture to the business layer closest to the action. It allows the business unit the flexibility to

plan autonomously while remaining aligned with the overall corporate strategy and goals. This is the strategic planning model mirrored in most corporate to subsidiary business relationships.

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Maintaining alignment between corporate goals and business unit strategies in a bi-directional planning model is the key to making this structure and process work. A planning governance model that works up and down the business layers is essential to maintaining alignment and tracking execution. So is corporate performance management. Performance management helps tie the measurement of the business unit leader's performance to the attainment of corporate goals as well as those defined in the business unit-level strategic plan. Performance management also applies to the employees within the business units, who are measured on goal attainment within the operating unit where they have direct impact on strategic plan execution.

Synchronizing the Human Resources

Every company, no matter big or small has a Human resource department. Employees who get recruited under this department are responsible for various works like finding best candidates for different profiles in the company, maintaining database of the employees, their salaries, their perks and are also responsible for conducting the process of appraisal and rejection. From the earlier times, Human resources play a vital role in company's growth. This department is also responsible for maintaining decorum and discipline in the office. Company's growth mainly depends over its employee's efforts. Where the company would stand in next 5 years? It solely depends over the company's future strategies and its implementation. Employees are the only who make strategies and implement it. So, their efforts play a vital role in company's growth. Being a HR of a company, your duty is to hire best possible candidates for your company. It will certainly help your company in its growth.

Nowadays, human resource department has not limited to hiring and firing of the employees. Now it works over a broader canvas. Strategies human resources are the new identity of a HR department in many companies who have realised the benefits of involving Human Resources Department into company's strategies. Human resources management is not just about hiring the right people for the job all the time. HR professionals would also tell you that a big bulk of their work comes from designing appraisal strategies that will move people forward and upward and developing the use of reward practices, career development and training programs to ensure excellent people performance.

Under Strategic human resources management, people become critical assets, who are just hired, but are organized and managed effectively. They are synchronized with the company's overall competitive strategy. Certain programmes are developed with the association of Human resources department so that employees do not just perform their tasks, but also add value to the organization, its products and services.

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After Organizing Strategic Human resources management team, you and your people will be able to use human resources management to further enhance the overall competitive strategy of the organization.

One good way to know how to use human resources management to ensure the long-term success would be by join seminars geared towards engaging in strategic human resources management discussions. These training classes will allow you to figure out, if your company has the structure and systems in place to support the strategy the organization wishes to pursue. Furthermore, this can help you assess how strategically fit is the organisation and map out the ways in which you can make human resources the agent to your organizations success.

Strategic human resources also ensure that corporate governance should be followed effectively. It includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management and the board of directors. An important theme of corporate governance is to ensure the accountability of certain individuals in an organisation through mechanisms that try to reduce or eliminate the principal agent problem.

Steps to Achieve Business Growth

The following are the key steps to achieve your business growth:

- **Communicate your business well:** Be clear on your cause, aims and your objectives as an organisation and clearly communicate your message to stakeholders using a range of communication tools.
- **Understand your customers:** Understand the profile, interests, needs and demands of your target market and customer groups, when planning and selling your range of products or services.
- **Create sellable products and services:** Achieve your commercial objectives by selling products and services that are up to quality standards, are commercially competitive and are in demand.
- **Fill the gap in the market:** Understand your marketplace and future trends, and build a competitive business that can compete with competitors not only on ethics, but also on innovation, customer services, quality, performance, etc.
- **Convert marketing to sales:** Carefully research, plan, analyse and review your marketing activity on a regular basis to ensure that you hit your sales targets. If you are a social enterprise, utilise cause related to marketing and identify organisations you can partner with to help achieve your mission.
- **Becomes a leader:** Become an expert in your subject and champion innovation in your industry at a strategic level, campaigning, lobbying, supporting and representing the views of your customers and partners through the media and policy channels.

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- **Work on the business not in the business:** Manage and review business processes and results on a monthly basis to adjust and improve your business strategy for the months ahead.
- **Demonstrate your impact:** Whether you are a social enterprise or a business with a CSR strategy, put in processes and systems to capture measure and evaluate the social and environmental impact of your organisation from day one to monitor your progress.
- **Build your powerhouse:** Build a flexible, talented and reliable team who are have all of the required skills and expertise to achieve the goals of the organisation.
- **Keep it legal:** Ensure that all your business formalities are in place to keep your business on the right side of the law. Get a professional to help, if you need to.
- **Plan for growth:** Research and plan a growth strategy from the outset as it will influence the decisions you make from the start and it will help to shape your business strategy in the early years.
- **Manage your finances:** To achieve your mission your business needs to manage its inflow and outflow of cash to perfection. To make your life easier, get your financial management systems in place and use them regularly.
- **Raise Investment:** Most businesses require some investment during their lifetime, be it from a family member, bank manager or business angel for example. Be sure to plan and use this investment wisely and measure its overall success.
- **Access Support:** As a business leader you need to understand all areas of the business, so learn from those who have the skills, experience and knowledge to guide and support you on your journey.

4.3 DIRECTING THE GROWTH RESOURCES MIX

The role of a manager is to ensure that resources are aligned to business strategy and that they are used effectively and efficiently. Manager responsibilities also include the line management and development of employees to both achieve organisational objectives and for employee personal growth. Manager skills can be considered in two main categories: performance management and line management.

4.3.1 Performance Management

A manager will be actively engaged in the performance management of employees against business objectives and individual performance objectives. However, they need to perform a number of additional tasks beyond managing performance such as:

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- **Organisation design:** In conjunction with experts, such as HR advisors, the manager needs to ensure that the organisational design is fit for purpose. The organisational design must support the effective execution of business strategy.
- **Role definition:** Similarly the roles needed within an organisation must be well defined, including the purpose of the role, key accountabilities and responsibilities, capabilities, skills, knowledge and experience needed to perform the role.
- **Hiring employees:** Managers need to be able to effectively search, select, interview, hire and retain suitable employees.
- **Goal setting and delegation:** This is a crucial manager skill and relates to setting SMART objectives that are clearly related to business strategy and objectives.
- **Planning and resource allocation:** Planning of work and aligning that with strategy and business priorities. Allocating the right resources at the right time and ensuring that the work gets done.
- **Decision-making:** Managers must make many different decisions from prioritisation of work to managing resource conflicts to resolving problems.
- **Communication and reporting:** Clearly communicating upwards to more senior managers, sideways to interested counter-parties and downwards to employees.

4.3.2 Line Management

The line manager role or line management is less focused on the task to be done and more on the people and includes:

- **Motivating employees:** Ensuring that people are motivated and engaged and are either performing well or excellently.
- **Team building.** Create or maintain a high performance team.
- **Regular feedback.** Staff should know how they are performing and receive timely feedback.
- **Development:** Identifying areas of growth (content knowledge, skills and behaviours). Agreeing with employees' development steps and providing the necessary support to help make it happen such as paying for training, giving time off or providing on-the-job training opportunities with new projects.
- **Performance appraisals:** Performance evaluation should happen formally at least annually and regular interim appraisals such as quarterly.
- **Performance improvement:** Understand what the root cause is and, if appropriate then provide training, support, mentoring or coaching as needed to help employees achieve an appropriate level of performance.

NOTES

A business is what you do to make money. An enterprise is how you finance, organize, market and operate in order to take care of that business. Enterprise includes all the tangible and intangible resources that help the enterprise exist, grow and flourish. The key question that a company's leaders should be asking on a regular basis is whether the company's resources help to strengthen or weaken its ability to compete.

If it chooses to spend the time articulating them, a company will have three key resources at its disposal that will be instrumental to its success: vision, strategy and brand. Chief among a leader's responsibilities are articulating, championing, connecting and aligning these three resources.

While some leaders do a fair job of articulating and championing these resources independently, most come up short when it comes to connecting and aligning them. As a consequence, few companies come close to achieving the kind of success they are capable of achieving. This failure to connect and align is the result of a variety of shortcomings on the part of leadership, which may include:

- Articulating a vision that is aspirational but (perceived to be) impossible
- Speaking and acting in ways that are in conflict with the stated vision
- Delegating ownership of a single resource or key element to a functional group
- Failure to hold people accountable for following the procedures designed to align the company's vision, strategy and brand.

While spending time developing any one of the resources is beneficial, the greatest value will be found in the intersections of the three resources. Consider the relationships between them:

- Vision is the source of content for what will become the brand
- Vision is the primary source for differentiating elements of a strategy
- Brand is concerned with bridging gaps between the *intended* meaning of the enterprise (the vision) with what it *really* means to people
- Strategy is the process of making choices that move the company toward the ideal state of its vision in a manner that builds the intended brand.

A startup is typically based on its founder's "grand idea" or vision for how to do something better, cheaper or that has never been done before. But getting the startup off the ground depends on the leader's ability to get others on board. If a vision fails to inspire others, it won't be achieved.

However, it would be a mistake to think of charisma as the key competency required to get that buy-in. Typically, clarity and detail orientation are much more important traits. A vision that does not clearly articulate what's in it for the people delivering the vision will far short in effective execution. And not paying adequate attention to the details of an intended experience can result in key elements of differentiation being left out of the experience. Thus, branding (clarity) and strategy (detail) are iterative and co-dependent activities.

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At every step of growing an enterprise, intentions must be articulated, expressed, communicated and understood by those responsible for making them real. It starts with an inspiring and achievable vision. It continues with the countless and never-ending decisions that marginally close the gaps between vision and reality. Finally, the brand you end up with (e.g., what the people you care most think about you) is the brand you want them to have of you. Leading an enterprise through growth is the process of believing what you see in your wildest dreams, and taking the unending steps to move your reality closer to your dream.

The resource allocation decisions are very similar in that they set the operative strategy for the firm. Assume, for example, that resources are allocated to existing units on some formula basis (e.g., 10 per cent above a last year's budget). The implicit operative strategy is pace expansion. If the official strategy is expansion in some lines of business with stability in others, then greater resource flows to areas targeted for expansion are necessary to give force to the strategy. The formula approach (such as 10 per cent above last year's budget for all lines of business) would not reinforce such a strategy. What is important to understand is that once the strategic choice is made, resources must follow the strategy, or we haven't put our "money where our mouth is", SBU and lower managers are smart. If a firm's strategists describe a strategy in words but do not shift money and executive talent and other resources to support it, the strategy will be considered a paper strategy. As with objectives, there can be a difference between "official" and "actual" strategy. So resource allocation decisions about how much to invest in which areas of the business reinforce strategy and commit the organization to its chosen strategy.

Let's consider how resource allocation is important to several strategic options. If new product development is seen as the key to an active offensive strategy, more funds and personnel will be needed in research and development, with the possibility of longer-term capital expenditures for a new plant or new equipment. If the strategy calls for expansion in new markets, greater flows of funds for advertising, sales personnel, and/or market research will be required. If retrenchment is under way, resource allocation is of particular significance. Care must be taken to protect units which provide long-term competitive advantages. Unfortunately, the "easy way out" is often used –everyone is cut back equally, or resource flows are reduced for units which have a longer-term payout but are short-term users of resources without commensurate revenue generation. The usual example is to cut R & D or maintenance-the every places where long-term developments may be most critical for future competitive advantage. Thus shortsighted resource allocation decisions may come at the expense of the ability to pursue a long-term strategy.

Of course, resource allocation decisions are linked to objectives through the strategies being implemented. Decisions about dividend policies, for instance, are important in relation to objectives and the long-term ability to attract sources of capital. Thus, how to share expected profits among investors, management, the labor and whether to reinvest in the business are important resource allocation choices

with long-term strategy implications. External parties play a major role. For instance, government regulations may require a firm to invest large amounts of capital in "nonproductive" assets such as pollution-control equipment. Influential stockholders may force the firm to make greater dividend payouts. Thus the strategic agenda is partially set by the factors influencing the setting of objectives, since they will limit the resources available for implementing strategy as expressed in the allocation decisions. Finally, resource allocation is linked to the development of competitive advantage.

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It is presumed that those approaches were considered during strategy formulation. They key here is to make sure that preferential distribution of capital goes to the most critical units-the units where the strategy is directed at creating competitive advantages.

4.4 GREINER'S MODEL OF CRISES INDUCED GROWTH

The "Greiner Curve" is a useful way of thinking about the crises that organizations experience as they grow. By understanding it, you can quickly understand the root cause of many of the problems you're likely to experience in a fast growing business. More than this, you can anticipate problems before they occur, so that you can meet them with pre-prepared solutions.

Understanding the Theory

Greiner's Growth Model describes phases that organizations go through as they grow. All kinds of organizations from design shops to manufacturers, construction companies to professional service firms experience these. Each growth phase is made up of a period of relatively stable growth, followed by a "crisis" when major organizational change is needed, if the company is to carry on growing.

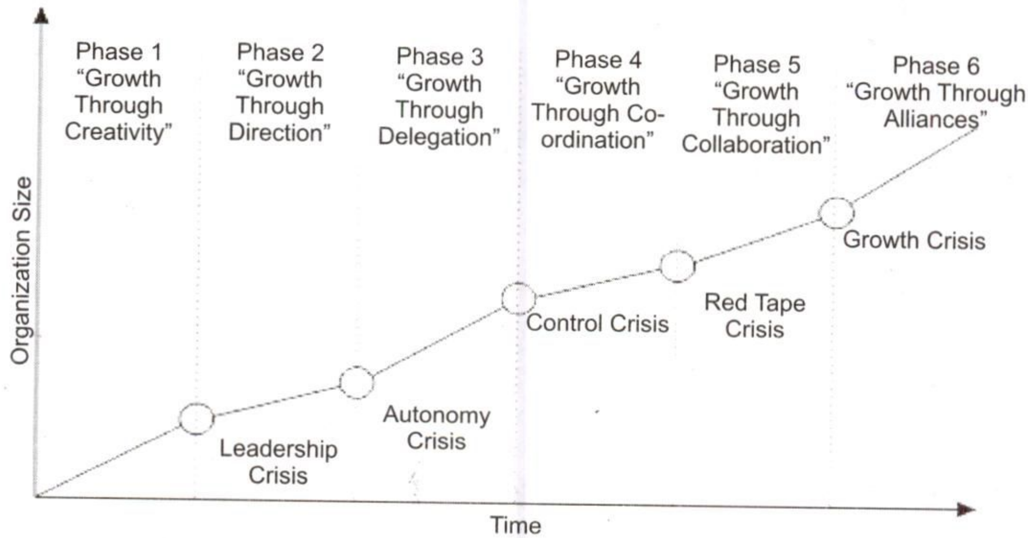

Fig. 4.1: The Greiner Curve

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Dictionaries define the word "crisis" as a "turning point", but for many of us it has a negative meaning to do with panic. While companies certainly have to change at each of these points, if they properly plan for there is no need for panic and so we will call them "transitions".

Larry E. Greiner originally proposed this model in 1972 with five phases of growth. Later, he added a sixth phase (Harvard Business Review, May 1998). The six growth phases are described below:

Phase 1: Growth through Creativity

Here, the entrepreneurs who founded the firm are busy creating products and opening up markets. There aren't many staff, so informal communication works fine, and rewards for long hours are probably through profit share or stock options. However, as more staff join, production expands and capital is injected, there's a need for more formal communication.

This phase ends with a Leadership Crisis, where professional management is needed. The founders may change their style and take on this role, but often someone new will be brought in.

Phase 2: Growth through Direction

Growth continues in an environment of more formal communications, budgets and focus on separate activities like marketing and production. Incentive schemes replace stock as a financial reward.

However, there comes a point when the products and processes become so numerous that there are not enough hours in the day for one person to manage them all, and he or she can't possibly know as much about all these products or services as those lower down the hierarchy.

This phase ends with an **Autonomy Crisis:** New structures based on delegation are called for.

Phase 3: Growth through Delegation

With mid-level managers freed up to react fast to opportunities for new products or in new markets, the organization continues to grow, with top management just monitoring and dealing with the big issues (perhaps starting to look at merger or acquisition opportunities). Many businesses founder at this stage, as the manager whose directive approach solved the problems at the end of Phase 1 finds it hard to let go, yet the mid-level manager's struggle with their new roles as leaders.

This phase ends with a **Control Crisis:** A much more sophisticated head office function is required, and the separate parts of the business need to work together.

Check Your Progress

1. What is the scope of a corporate level strategy?
2. What are the requirements of a business unit plan?
3. What is the collaboration stage of Greiner model?

Phase 4: Growth through Coordination and Monitoring

Growth continues with the previously isolated business units reorganized into product groups or service practices. Investment finance is allocated centrally and managed

according to Return on Investment (ROI) and not just profits. Incentives are shared through company-wide profit share schemes aligned to corporate goals. Eventually, though, work becomes submerged under increasing amounts of bureaucracy, and growth may become stifled.

This phase ends on a **Red-Tape Crisis:** A new culture and structure must be introduced.

Phase 5: Growth through Collaboration

The formal controls of phases 2-4 are replaced by professional good sense as staff group and re-group flexibly in teams to deliver projects in a matrix structure supported by sophisticated information systems and team-based financial rewards.

This phase ends with a crisis of **Internal Growth:** Further growth can only come by developing partnerships with complementary organizations.

Phase 6: Growth through Extra-Organizational Solutions

Greiner's recently added sixth phase suggests that growth may continue through merger, outsourcing, networks and other solutions involving other companies.

Growth rates will vary between and even within phases. The duration of each phase depends almost totally on the rate of growth of the market in which the organization operates. The longer a phase lasts, though, the harder it will be to implement a transition.

4.5 MANAGING GROWTH FATIGUES: CONCEPT AND OVERCOMING THE SAME

Growing businesses face a range of challenges. As a business grows, different problems and opportunities demand different solutions - what worked a year ago might now be not the best approach. All too often, avoidable mistakes turn what could have been a great business into an also-ran.

Recognising and overcoming the common pitfalls associated with growth is essential, if your business is to continue to grow and thrive. Crucially, you need to ensure that the steps you take today don't themselves create additional problems for the future. Effective leadership will help you make the most of the opportunities, creating sustainable growth for the future.

Keeping up with the market

Market research isn't something you do as a one-off when you launch your business. Business conditions change continually, so your market research should be continuous as well. Otherwise you run the risk of making business decisions based on out-of-date information, which can lead to business failure.

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The more you succeed, the more competitors notice - and react to - what you are doing. A market-leading offer one day may be no better than average a few months later.

Apparently loyal customers can be quick to find alternative suppliers who provide a better deal.

As products (and services) age, sales growth and profit margins get squeezed. Understanding where your products are in their lifecycles can help you work out how to maximise overall profitability. At the same time, you need to invest in innovation to build a stream of new, profitable products to market.

Planning ahead

The plan that made sense for you a year ago isn't necessarily right for you now. Market conditions continually change, so you need to revisit and update your business plan regularly. As your business grows, your strategy needs to evolve to suit your changed circumstances. For example, your focus is likely to change from winning new customers to building profitable relationships and maximising growth with existing customers. Existing business relationships often have greater potential for profit and can also provide reliable cash flow. Newer relationships may increase turnover, but the profit margins may be lower, which may not be sustainable. See the page in this guide on cash flow and financial management.

At the same time, every business needs to be alert to new opportunities. There are obvious risks to relying solely on existing customers. Diversifying your customer base spreads those risks.

Cash flow and financial management

Good cash flow control is important for any business. For a growing business, it's crucial - cash constraints can be the biggest factor limiting growth and overtrading can be fatal. Making the best use of your finances should be a key element in business planning and assessing new opportunities. With limited resources, you may need to pass up promising opportunities, if pursuing them would mean starving your core business of essential funding.

Every element of working capital should be carefully controlled to maximise your free cash flow. Effective credit management and tight control of overdue debts are essential. You may also want to consider raising financing against trade debts.

Good stock control and effective supplier management tend to become increasingly important as businesses grow. Holdings of obsolete stock may become a problem that needs periodic clearing up. You may want to work with suppliers to reduce delivery cycles, or switch to suppliers and systems that can handle just-in-time delivery.

Planning ahead helps you anticipate your financing needs and arrange suitable funding. For many growing businesses, a key decision is whether to bring in outside investors to provide the equity needed to underpin further expansion.

Problem solving

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New businesses often run in perpetual crisis mode. Everyday brings new challenges that urgently need resolving and management spends most of their time troubleshooting.

As your business grows, this approach simply doesn't work. While a short-term crisis is always urgent, it may not matter nearly as much as other things you could be doing. Spending your time soothing an irritated customer might help protect that one relationship - but focusing instead on recruiting the right salesperson could lay the foundations of substantial new sales for years to come. As your business grows, you also need to be alert to new problems and priorities. For example, your business might be increasingly at risk unless you take steps to ensure your intellectual property is properly protected.

If you are focusing on individual marketing campaigns, you might need to devote more resources to developing your brand. Identifying the key drivers of growth is a good way of understanding what to prioritise. A disciplined approach to management focuses on leading employees, developing your management team and building your business strategy. Instead of treating each problem as a one-off, you develop systems and structures that make it easier to handle in the future.

The right systems

All businesses produce and rely on large volumes of information - financial records, interactions with customers and other business contacts, employee details, regulatory requirements and so on. It's too much to keep track of - let alone use effectively - without the right systems.

Responsibilities and tasks can be delegated as your business grows, but without solid management information systems you cannot manage effectively. The larger your business grows, the harder it is to ensure that information is shared and different functions work together effectively. Putting the right infrastructure in place is an essential part of helping your business to grow.

Documentation, policies and procedures also become increasingly important. The informality that might work with one or two employees and a handful of customers simply isn't practical in a growing business. You need proper contracts, clear terms and conditions, effective employment procedures and so on.

Many growing businesses find using established management standards one of the most effective ways of introducing best practice. Quality control systems can be an important part of driving improvements and convincing larger customers that you can be relied on.

Investing in the right systems is an investment that will pay off both short and long term. You benefit everyday from more effective operations. If you ever decide to sell the business, demonstrating that you have well-run, efficient systems will be an important part of proving its value.

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Skills and attitudes

Entrepreneurs are the driving force behind creating and growing new businesses. All too often, they are also the people holding them back.

The abilities that can help you launch a business are not the same as those you need to help it grow. It's vital not to fool yourself into valuing your own abilities too highly. The chances are that you'll need training to learn the skills and attitudes required by someone who is leading growth.

To grow your business, you need to learn to delegate properly, trusting your management team and giving up day-to-day control of every detail. It's all too easy to stifle creativity and motivation with excessive interference. As the business becomes more complex, you also need to develop your time management skills and learn to focus on what's really important.

As your business grows, you may need to bring in outsiders to help. You'll want to delegate responsibility for particular areas to different specialists, or appoint a non-executive director or two to strengthen your board. As you start tackling a new opportunity, someone who has experience of that activity can be vital.

For many successful entrepreneurs, learning to listen to - and take - advice is one of the hardest challenges they face. But it may also be essential, if you are going to make the most of your opportunities. Some entrepreneurs, recognising their own limitations, even appoint someone else to act as managing director or chairman.

Welcoming change

Complacency can be a major threat to a growing business. Assuming that you will continue to be successful simply because you have been in the past is very unwise. Regularly revisiting and updating your business plan can help remind you of the changing market conditions and the need to respond to them.

An up-to-date plan helps you identify what action you need to take to change your business and the way it operates, for example:

- Changing to suppliers who can grow with you and meet your new priorities. As your business grows, consistent quality and reliability may be more important than simply getting the cheapest offer.
- Renegotiating contracts to take account of increased volume.
- Training and developing employees. Your own role will also evolve as the business grows. See the page in this guide on skills and attitudes.
- Making sure that you keep up-to-date with new technologies.

You need to be fully committed to your strategy, even if it takes you out of your comfort zone. This may involve hard decisions - for example making employees redundant or switching business away from suppliers you have become friends with. But unless you're prepared to do this, you risk putting your business at a dangerous competitive disadvantage.

4.6 MANAGING THE MOMENTUM OF GROWTH: STEADY AND SPEED

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In order to maintain your momentum, your success and your business growth, you will need to adopt and consider a number of key components:

1. **Managing Leadership:** As a leader, your role is to set the direction in which you want to drive the business. It is important to build a framework for people to operate within and allow them room to contribute and develop.
2. **Financial Planning:** To manage expansion and growth, you will need to plan for hiring new staff and buying or leasing equipment and stock. Handling debtors and creditors is an important element of this process. Bottom line? You must convert your purchases into sales and get the cash in before it runs out. Remember, even profitable businesses fail through lack of cash. Many a business owner has had to deal with the frustrating situation of securing a big order that will 'sort everything out' once the cash is in the bank, but, until then not having the cash in the bank to order stock, pay staff or creditors. This is a common problem, so you need to plan finances effectively and know exactly what is coming in and going out of the business day-to-day.
3. **Resourcing Innovation and Growth:** As an entrepreneur, it is essential that you surround yourself with people who share your goals and vision; people who can bring their expertise and skills to the table. People are the lifeblood of any business, so you must treat them fairly and look after them. An authentic business begets staff loyalty and a happy team be gets high productivity. It is therefore important to retain these skilled resources, so good Human Resource practices and principles should be included within the business.
4. **Creative Marketing:** As you develop and grow your business from launch to year two, three and beyond, you will get to learn more and more about your customers needs, wants, preferences, complaints. So, based on your experience, you can refine your marketing strategy. You can base your new strategy on findings including, what customers buy the most of, what kind of customers are buying most, where are they coming from (which marketing strategies are working) and so on. The aim with any business growth programme is to continuously build your strongest markets and/or restructure your approach to target new growth market sectors.
5. **Brand Reputation:** Your brand develops with your business and your reputation. It is essential to maintain and draw on the strength of your brand to your own advantage. You may want to review your brand and ethos during the development of your business, in reaction to customer tastes. Your aim will always be to communicate your brand, your brand review and what you

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as a business stand for as effectively as possible for everyone involved in your business from staff and suppliers to customers and the general public.

6. **Targeted Promotion:** As you develop your brand and your business you will refine and tune into your target markets; you will define key advertising and communication channels to carefully select your media in a way to maximise your return on investment and get your name in front of the right people. Your brand and the impression of your brand will develop as a result.
7. **Quality Standards:** You should have integrated responsible business practices into the development of the business, and now is the right time to develop your Corporate Social Responsibility Strategy. From the practices you have put in place, you can look at applying for Quality Accreditation Marks to recognise your commitment.
8. **Planned Expansion:** Assessing the next steps to your business growth is a key factor, whether it's organic growth, merger, licence arrangement, franchise agreement or maybe selling your business.

Seven Deadly Sins of Business Growth

According to report published in Fortune Magazine the following are the seven deadly sins of business growth:

1. Believing you can see the future

The fresher the innovation, the more likely it will come to fruition sometime in a distant future for which there presently is no data. Unless you possess a crystal ball and remarkable prophetic abilities, believing you can see the future is delusional at best. Borders' was a pioneer of the mega bookstore category, but when things began to go digital, it bet big on in-store media downloads. Instead of making midcourse corrections, it rode its strategy all the way to bankruptcy. A sure sign of a company that is stuck in the planning phase of innovation is an incessant collection of data and obsession over the business plan. Current research suggests that planning is important, but learning from real experience is absolutely critical. We all need to know the facts to move forward, but when we focus on data collection at the expense of running meaningful experiments that will yield results, it becomes counterproductive.

Redemption: Prototyping, test marketing, and post-mortem reviews will tell you more about opportunities, shifting customer preferences, and the potential of a new technology than any spreadsheet or PowerPoint stack. Take your cue from venture capitalists who hedge their bets. They will make small investments in a wide array of therapies for the same disease state to quickly learn what really works. They seldom bet it all on one sure winner. *Make smaller and wider bets.*

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2. Choosing big over fast

An innovation is only innovative for just a brief moment in time. It has a shelf life and goes sour like milk. The smart phone with all the latest technology you bought for your daughter at Christmas will be a historical artifact by the same time next year. To compound matters, it's not just *time* that makes innovation so elusive but *timing*. Get there too early and there is no demand, too late and the day belongs to your competitors. Yet, leaders commonly trade magnitude for speed -- big for fast. Those who crow "go big, or go home" can usually be found sitting on the coach.

Redemption: Momentum is everything. When I was a young man, I was an executive at Domino's Pizza (DPZ) when it went from a small regional chain to a multinational multibillion-dollar enterprise. We virtually invented the home delivery concept. While Pizza Hut spent almost a year planning new sit-down parlors, we identified promising locations in strip malls, equipped and supplied them, and opened stores within three weeks. Most importantly, we hired highly energetic managers who could multitask and keep things moving quickly. We would run promotion after promotion and within a month would develop the winning formula for that area. By the time competitors entered the market, we already owned it. Domino's grew over 200% a year for almost a decade. *Pick up your pace.*

3. Mistaking your managers for innovators

The virtues of a good manager are well known. They make our lives easier by keeping things on track and under control. They squeeze the most out of the least by eliminating variation. The problem is that all forms of growth require deviance to produce something that's both useful and novel.

Redemption: Deviance requires deviants. Every company has a collection of misfits that show real promise but are difficult to manage. The bad news is that they pretty much do whatever they believe to be right. The good news is that they demonstrate a high degree of ownership for their work -- a key attribute of a natural innovator. In the early 1980s, when I had just completed my doctorate in instructional technology, I had the opportunity to be an advisor at Apple (AAPL). What impressed me most was the way the company identified and embraced its most effective non-conformists. They called them Apple Fellows. These leaders had both the skills and drive to move new ideas through the company. Former fellows include Alan Kay, chief designer of the Macintosh, Donald Norman, author of *The Design of Everyday Things* and Guy Kawasaki, the founder of Alltop. No one had to motivate them to take on the system. *Encourage and support your deviants.*

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4. Having more ambition than capability

The gifted amateur as heroic innovator is one of the great American myths. Journalists love to tell us how Google (GOOG) co-founders Larry Page and Sergey Brin started it all in their garage in Palo Alto but fail to mention that they were doctoral students at Stanford University working in the Human–Computer Interaction Group where an assortment of geniuses and Nobel Laureates congregate. Similarly, stories about Benjamin Franklin, Thomas Edison, and Steve Jobs conveniently overlook their unique brilliance and years of experience. If everyone could really do it, they would. The point is, if you are creating anything better or of real consequence -- from a miracle drug to a new business model for your delicatessen -- you need experts to help you get it right. Strategy is relatively easy when compared to finding and developing highly competent practitioners.

Redemption: Several years ago I built an innovation lab called Innovatrium across the street from the University of Michigan where I am a professor of business. I liken it to the Juilliard School, which only accepts the best performers, because you can't take someone who is mediocre and make them great but you can help someone who is great become exceptional. *Base your strategy on your capability*.

5. Starting at the center and moving out

Most great innovation happens at the outer edges of the firm, just beyond the reach of the center's power and influence. Skunk works, secret labs, and coffee shops have long been the venues for treasonous talk and radical experiments. The farther away you are from the center of the company, both physically and emotionally, the more likely you are to seek alternative ways of doing things. Companies have standard operating procedures to keep their equilibrium, which is essential to sustaining the business. But these same procedures are designed to destroy variation, no matter the intention.

After years of marketing research, Coca-Cola (KO) launched a mid-calorie cola called C2 that was formulated to taste like Classic Coke but with half the calories. Sales were disappointing. But when Coke did a post-mortem review of what worked and what didn't, they gained real insights that ultimately led to the highly successful Coke Zero.

Redemption: It's easier to change 20% of your organization by 80% than it is to change 80% of your firm by 20%. *Work your innovations from the outside-in.*

6. Listening to the wrong customers

It's a common story. A company develops a technology and becomes the corporate standard. For the next few years, it plays defense until an upstart emerges and

they are rapidly undone. Consider the case of Research in Motion, which has faithfully listened to its loyal customer base -- security-conscious multinationals -- and adjusted its product to better meet their needs. The only problem was that adjacent consumer segments, such as professional service providers, were the ones changing the game with their iPhones and Androids.

The worst of all possible growth strategies is to have an increasing share of a shrinking market. Smith Corona, one of the last typewriter manufacturers, made some of the very best machines right before they went out of business. IBM made the same mistake a decade before, and dozens of other great firms have fallen into the same trap at one time or another. The problem is that it's easy to ignore the customers who have a line of sight to the future in favor of the more established and cautious ones who demand more immediate attention.

Redemption: Friedrich Nietzsche argued that civilizations that were placid and predictable were in the last throes of their existence, while highly contentious and dynamic cultures were entering their growth phase. His point was that while most pander to the former, the future belongs to the latter. Think of the time it takes to bring a new innovation to market as the time it takes to escape a burning building. If you benchmark the incumbent customers in your market, typically late movers, you will be the last one out. First adopters are eager to gain an advantage because they often cannot compete on resources, scope, or scale. It also turns out that these influencers mobilize other groups to follow their lead. *Follow the customers who move first.*

7. Failing to connect the dots

Innovation is one of the few things that can apply to every function and discipline within your company. To compound matters, companies of all sizes are now competing in federations, loose clusters of businesses across traditional boundaries. In the Facebook economy, synchronizing networks of innovation requires moving beyond a hierarchical concept of the company itself. While this has long been a strategy for smaller entrepreneurial firms, the largest and most complex of organizations are adopting it now as well. Boeing (BA) is building tailor-made Dreamliners in dozens of countries with hundreds of companies and thousands of suppliers. The aircraft has had several delays, which has cost Boeing lucrative contracts, but the company's ability to sync up all these parts to create customized complicated products will be a significant competitive advantage for future ventures.

Redemption: Economist Joseph Schumpeter observed that entrepreneurs create companies to show their value as superior people. The challenge for these movers and shakers is that the drive and ability to innovate is often concentrated around them in small pockets of brilliance. If you are at the center of innovation activities, you are probably the proverbial hub to the spokes of your firm. The

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problem is that this stretches you beyond your capability and obstructs your company's ability to search and reapply winning ideas quickly.

While many businesses resort to prescriptive processes because they don't know how else to connect the dots, it is much wiser to develop what Harvard professor Dorothy Leonard calls "deep smarts." You focus your attention on teaching your understudies. They focus their attention on teaching their understudies, and so on. By reimagining your company this way, you can create something akin to a great university that is both innovative and sustainable. *Teach your leaders to be free and responsible.*

Credit: management.fortune.cnn.com/2012/09/05/7-deadly-sins-of-business-growth/

4.7 ALERT AND ADVANCING

Growth is often the bulls eye businesses aim for, yet ironically enough, when it arrives the sudden surge can cause a company to falter or even fail. "When a business is successful and grows, particularly when the growth is rapid, management is almost always operating with limited resources and one of those is limited financial management expertise," said Phillipson. "This is not surprising, if the owner does not have any financial training."

"A SME cannot justify a full-time, suitably qualified Controller until it reaches a certain point and so it often continues to utilize the same staff as was necessary when the business was much smaller. Often this accountant is capable of preparing the necessary compliance referred to above. However, that person often does not have the experience to effectively manage the slightly more complex challenges that success and growth entail."

Here is his advice on where the problems lie and what you can do to resolve them.

1. Lack of capital

Lack of capital is often the most critical challenge that a successful SME faces as its very success creates this and it quickly becomes a vicious circle.

Without very diligent cash flow management and/or raising of more capital, including debt, the business often is constrained by capital as it grows. Often the profit in one operating cycle is insufficient to fund the extra working capital required for the next operating cycle.

This is especially the case where a business is either inventory or receivables intensive and/or the operating cycle is a long one. (The operating cycle is the average time that it takes from the first receipt of inventory to when the customer pays for the goods sold.)

This can be made even worse where capital goods are required to process the goods and the company cannot finance the acquisition of these capital assets. Many capable entrepreneurs cannot overcome the obstacles in their businesses cash flow cycle and cannot understand why bankers and other lenders often cannot provide the financing as the SME often does not have the security to support the debt.

The solution is often easier than most entrepreneurs realize. It often starts with a plan to see what your cash needs are and when your cash needs arise. Then one is in a position to manage it and focus on the cash management techniques most likely to be successful in your business.

2. Lack of management skills

Lack of management skills is a problem that is very difficult to deal within most SMEs as the size of the senior management team is necessarily limited. These areas of weakness could be in finance, human resources, marketing and any area where the current management does not have the expertise, or the time to deal with the issues.

The solution is to determine what those areas of weakness are and then to develop a plan for dealing with those challenges. Once you spend the time to recognize a weakness—as long as it is not in a core area for the specific business—it often can be compensated for without a lot of time, effort or money.

Solutions can be as simple as assigning the responsibility to an existing manager with a requirement to watch for the obvious pitfalls, to hiring a person part-time or a consultant. The solutions are often obvious, if one spends a little time planning and assigning responsibility. And yes, it often is effective to assign that responsibility to yourself as you then know that you have to deal with the issues rather than waiting for an issue to become a real problem.

3. Lack of information about what is - and isn't – working

Lack of information about what is working, and what is not working, in the business can be an issue. Often companies do not measure their results and when something specific causes a blip (positive or negative) in results they do not know what has caused the success or problem.

Implementing a process for measuring and tracking key performance indicators (KPIs) on a weekly, or at least monthly, basis is the key to enabling management to react to challenges and opportunities alike. The old saying that you cannot manage what you do not measure is so true. If nothing else, it often alerts you to a change from the norm much sooner than waiting until you otherwise become aware of it. Once awareness is established, solutions are easier to find.

4. Lack of a plan

Lack of a plan is often a fundamental problem for many SMEs. The arguments for planning are many and Irrefutable and yet this is a very common failing for most SMEs except those that are enjoying very rapid growth.

In my opinion there are three very fundamental reasons for implementing a planning process:

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- If your plan sets out certain objectives you are much more likely to achieve - or exceed - them than if you just keep barreling along. Research has often shown this to be true and it stands to reason that having a plan will enable you to often think through and implement the steps necessary to achieve that plan;
- Most SMEs spend so much time dealing with the "alligators" that are snapping at their rear end that it is difficult to recognize the steps necessary to achieve your long-term objectives. A plan disciplines you to look "beyond the weeds" from time-to-time; and
- A plan can often alert you to inconsistencies that need to be managed e.g., a lack of capital or other resources necessary to fund the growth projected. Once recognized you are in a position to better manage the limiting factor.

5. Poor procedures

Poor procedures are a constant challenge for a SME trying to manage with limited resources. Most entrepreneurs do not realize that the procedures in place for managing the business need to be well designed to reduce the incidence of errors. Error correction is often a major waste of time and particularly management time.

Good procedures with a little time and effort invested up front will usually pay enormous dividends in time and cost savings on an ongoing basis.

6. Ignoring risks in their assessment of alternatives and opportunities

Many entrepreneurs ignore risk in their assessment of alternatives and opportunities. A business is about taking managed risks and one cannot insure for or avoid risk, if one is in business. However, in my experience few, once they have chosen a course of action, pause to consciously think of ways to manage the risk and determine procedures or steps that can be taken to reduce the risk and increase the chances of success.

Often, this is as simple as "diarizing" to follow-up on an issue so that it does not get forgotten or having a second person review something to reduce the risk of error.

7. Lack of focus

Lack of focus is often a real challenge for an entrepreneur in a SME as there are constant changes in priorities, issues that need attention and other fires to be extinguished. Often opportunities present themselves and it is difficult to say "no" to a short-term opportunity that will distract you from your long-term goals.

Be clear on your long-term objectives and the opportunities that will facilitate your achieving this. Then evaluate other opportunities by the extent to which they draw resources away from your ability to achieve those long-term goals.

8. Failure to plan for issues absorbing the majority of your time

Each of the above potential mistakes are common and are often encountered in businesses that could do lot better. However, the greatest failing that I encounter is

an owner/manager not pausing to plan for the issues and solutions that are absorbing so much of his/her time and energy.

Probably the scarcest resource in most businesses is the time of the owner/ President and a little time developing a strategy can often free up the opportunity to focus on real priorities.

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4.8 HIGH GROWTH ROADMAP

Your business' focus changes as it moves beyond the start-up phase. Identifying opportunities for growth becomes a priority to ensure the enterprise's sustainability. You can **measure growth** by looking at key statistics such as yours:

- Turnover
- Market share
- Profits
- Sales
- Staff numbers

However, determining which measure delivers the most accurate picture of your business' performance depends on both your type of business and what stage it has reached.

For example, a retail business may have a high sales volume, but narrow margins on stock. These could mean low profits that undermine the business' viability. In general, a combination of **sales and profits** is the balanced way of measuring growth. Before you pursue any growth strategies, it's essential to make sure that your business is **running efficiently**.

While you may be spending more time and resources on developing the business, you need to be sure that the core of the business is still performing well. It's vital not to neglect your existing customer base as this will underpin your growth and, equally importantly, provide the cash flow you will need during this phase.

Timing is critical to the success of any growth strategy. Answers to the following key questions will help you judge if the time is right:

- Could your business cope with expansion, or is it working at full capacity?
- Do you have the resources and systems in place to carry on your existing business while targeting expansion elsewhere?
- If new initiatives are likely to disrupt existing performance, how will you ensure your customers don't lose out?

You may have to consider including additional staffing, refining production processes and equipment or outsourcing certain tasks in order to give you the flexibility to pursue a growth strategy.

The following are the options available to expand your business:

Increasing market share

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To increase market share a business has to take customers from its competitors or attract new customers. Achieving this requires a thorough understanding of both your own customer base and that of rival businesses.

Having the answers to the following questions will help you build a comprehensive picture of your market and your competitors and put you in a stronger position to win a bigger market share.

- Who are your existing customers? Are there any other groups that may require your product or service and that you haven't targeted before? Can your product or service be used for purposes that you had not previously considered and that could make it appealing to a wider market?
- What are your competitors' strengths? Do you have these too? If not, why not - and should you have them?
- Why do customers buy from your competitors? What advantages do you have over your rivals that may attract their customers? How can you communicate with your competitors' customers to get them to switch and buy from you instead?
- What is your unique selling point?
- Apart from obvious rivals, are there any other businesses with customers your product or service may appeal to?
- Are there customers who have stopped buying from you? Do you know why? If not, you may want to ask them.
- Will you need to change pricing, marketing, distribution, service levels? Could those changes upset current customers? Will your employees remain motivated?

Diversification

Many businesses grow by taking opportunities to diversify, although there are **risks** because of limited resources on all fronts. Businesses should weigh up the risks and costs of opting for growth carefully against the benefits.

Diversification can take several forms, including:

- new, related Products or services to existing customers
- new markets for existing products
- new products for new markets

Deciding how and when to diversify depends on your having:

- Thorough market and customer research for the new product or service
- a clear development strategy - including trying a new line or service for a short

test period with prototypes and test marketing before totally committing to the new project.

- sales, marketing and supply chain operations that can cope with the added demands.

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Partnerships, joint ventures, mergers and acquisitions

You can also expand your business by joining forces with another business. While this can create more shared decision-making and possible management and staff issues to resolve, there can be clear advantages.

Successful co-operation can deliver:

- more resources
- sharing of the managerial load
- larger skills and talent base
- bigger pool of contacts
- increase in markets
- diversification and organic growth using increased resources
- reduced commercial risk.

Partnerships and joint ventures

Partnerships and joint ventures can offer both partners significant benefits, including sharing experience, skills, people, equipment and customer bases. Through a partnership or joint venture arrangement with a complementary, non-competitive business, you may be able to open new markets or improve your offer to existing ones.

It's important to be very careful who you link up with. An agreement defining the terms of the partnership or joint venture is essential and further legal protection is advisable.

Mergers and acquisitions

This is when two companies formally merge or one takes over another. Mergers and acquisitions are more suited to established enterprises and transactions involve commercial lawyers and considerable legal work.

To choose the best strategy for growth, you'll need to undertake an analysis of your business' current performance. Once you've carried out the review, focus on the option that looks the most logical. The pages in this guide outline some of the most common choices. Next, make sure this option is also the most practical. Check that the strategy reflects the things your business does well.

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Playing to your strengths

A stationery supplier might identify the following growth options:

- Increasing **market share** by starting a mail order operation
- **diversifying** by adding computer printer consumables to its range
- entering into a **joint venture** with an educational book publisher to sell books and stationery to schools

All of these options reinforce what the business already does - providing products that enable written communications. A strategy that doesn't fit so well - for instance, selling interactive DVDs - could be harder to implement and more likely to fail. Check the strategy against any SWOT (strengths, weaknesses, opportunities, threats) analysis in your business review. How does it address the issues the analysis found? For example, if the stationery business recognises a declining market for typewriters, would adding computer printer consumables address all the points raised by the SWOT analysis?

You'll need to assess whether you have resources and capacity to make the strategy work. See the page in this guide on the practicalities of growth. You'll also need to be sure that the funding is available and that your strategy will generate a profit. See the pages in this guide on financing your growth strategy and getting a return on your investment for growth.

The practicalities of growth

Your business will need to count on more resources than simply finance when putting a growth plan into action. You should also think about the following:

- **Staffing** - will you need to take on more people to make the strategy work? How many? What skills will be required? Are those readily available?
- **Training** -will further training of existing staff be necessary or helpful?
- **Premises** - are they big enough for extra stock and/or a new production line? Will there be sufficient space for staff and will you still meet health and safety regulations?
- **Information Technology** - will your systems cope? Would new software or equipment ease pressures?
- **Customer service systems** - would a more sophisticated system help the strategy to succeed and ease pressures in other areas?
- **Outsourcing** - will outsourcing allow you to concentrate your resources more effectively?

To find answers to these questions, you'll need to have assessed your business' current performance and capabilities. You can find out more about this essential process in our guide on how to review your business performance.

Marketing

Marketing and sales are fundamental to the strategy. Is your existing marketing strategy appropriate to your new market and/or product? The right sales people can accelerate growth and profits. Remember it's the growth strategy that comes first - it should determine who you choose to recruit.

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Financing your growth strategy

Sound financial planning is the foundation of any growth strategy. Firstly, you should establish:

- how much investment is required to fund the venture
- when it will be needed
- when it will be available.

A detailed cash flow forecast is essential, not least because outgoings are almost certainly going to rise sooner and faster than revenues. Enough money must be in the pot to keep the core business running. It's a good idea to build in some surplus too, as most projects always take longer to bear fruit than originally predicted.

Detailed forecasts regarding sales, working capital and sources of seed funding, and even second round funding, need to be drawn up.

Businesses looking for capital investment, apart from bank loans, have three main sources - equity capital provided by the owner(s) or friends and family, venture capital and business angels. You can also see if any development or enterprise grants or loans are available in your area.

Equity finance is money invested in a business that is not directly repayable. It could be your own, most likely raised through re-mortgaging a property, or money from others taking a share in the ownership of the business.

Venture capital is an investment by a fund in a business in the early stages of development. The deal will very often include a right to management involvement.

Business angels are the private investors taking a minority or majority stake in a business, often contributing valuable business experience in the form of advice and contacts.

Case Study: Wal-Mart's failure in Germany

Wal-Mart Stores, Inc. is the largest retailer in the world, the world's second-largest company and the nation's largest nongovernmental employer. Wal-Mart Stores, Inc. operates retail stores in various retailing formats in all 50 states in the United States. The Company's mass merchandising operations serve its customers primarily through the operation of three segments. The Wal-Mart

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Stores segment includes its discount stores, Supercenters, and Neighborhood Markets in the United States. The Sam's club segment includes the warehouse membership clubs in the United States. The Company's subsidiary, McLane Company, Inc. provides products and distribution services to retail industry and institutional foodservice customers. Wal-Mart serves customers and members more than 200 million times per week at more than 8,416 retail units under 53 different banners in 15 countries. With fiscal year 2010 sales of $405 billion, Wal-Mart employs more than 2.1 million associates worldwide. Nearly 75% of its stores are in the United States ("Wal-Mart International Operations", 2004), but Wal-Mart is expanding internationally. The Group is engaged in the operations of retail stores located in all 50 states of the United States, Argentina, Brazil, Canada, Japan, Puerto Rico and the United Kingdom, Central America, Chile, Mexico, India and China

Wal-Mart's entry and operation in Germany

Wal-Mart's initial entry into German market was through the acquisitions of renowned 21 store Wertkauf chain for an estimated $1.04 billion in December 1997. It was followed one year later by the acquisition of In-terspar's 74 hypermarkets from Spar Handels AG, the German unit of the French Intermarché Group , for €560 million. Thus Wal-Mart immediately became the country's fourth biggest operator of hypermarkets. However, with a turnover of around €2.9 billion, and a stagnating market share of just 1.1 per cent, the US giant still was a negligible one in the German retail market. Even worse, with estimated accumulated losses of more than € 1 billion, it is literally drowning in red ink although, according to Wal-Mart Germany's CEO, Kay Hafner, its non-food assortment, which accounts for around 50 per cent of its revenues, is profitable.. Instead of expanding its network of stores by 50 units by early 2001, as originally planned, the company has been forced to close two big outlets, while at the same time it was only able to fully remodel three locations into its flagship Super center format. Due to its problems the company also had to lay off around 1.000 staff. On July 2006,Wal-Mart announced its official defeat in Germany and would sell its 85 German stores to the rival supermarket chain Metro and would book a pre-tax loss of about $1 billion (£536million) on the failed venture.

A Critical Analysis of Reasons for Wal-Mart's failure in Germany

There were several factors that contributed to Germany's unsuccessful business ride. Amazing management blunders have plagued Wal-Mart's German operation from the very start. Wal-Mart's major mistakes on the German market may be summarized as follows.

- Cultural Insensitivity was the major reason of failure,
- Entry to German market by acquisition strategy,

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- Failure to deliver on its legendary "everyday low prices" and "excellent service" value proposition,
- Bad Publicity about the company due to breaking of some prevailing German law and regulations.

In January 1997, Wal-Mart had first entry in Europe market with the acquisition of Wertkauf hypermarkets in Germany. Later in that year, Wal-Mart also acquired Interspar, another German hypermarket chain. While its first move – the 1997 takeover of the 21 Wertkaufstores was indeed a shrewd one, given that company's excellent earnings, its competitive locations, and its very capable management. Wal-Mart's 1998 follow-updeal with SPAR for 74 hypermarkets was widely judged an ill-informed, ill-advised act, for several reasons:

SPAR is considered to be the weakest player on the German market due to its mostly run-down stores, very heterogeneous in size and format, with the majority of them located in less well-off inner-city residential areas.

Wal-Mart's cultural insensitivity led to its failure in Germany. This Study focuses only on the flaws made by the Wal-Mart in its International operations in Germany from a Cross-Cultural Management's perspective.

Wal-Mart's failure in Germany- A Case of cultural insensitivity

Most of the Global mergers and acquisitions failed to produce any benefit for the shareholders or reduced value, which was mainly due to the lack of intercultural competence. Lack of sensitivity and understanding of language barriers, local traditions, consumer behavior, merchandising, and employment practices irreversibly damaged Wal-Mart's image in Germany. One of the main reasons that failed Wal-Mart in Germany is when it attempted to transport the company's unique culture and retailing concept to the new country. The top management refused to even acknowledge the differences in customer behavior and culture in Germany when compared to its US customers, and the top management failed to listen to the feedback from its employees. Not every new cross-border retailer can be a retail giant outer its home. The mistake of exporting its culture wholesale, rather than adapting to local market, leads Wal-Mart failed in Germany market.

Wal-Mart's ambitions to position itself profitably in European markets through Germany have been hit badly by their inability to fully understand and to adapt to the specific conditions of doing business in other countries. This exposed their obvious lack of intercultural competence and management skills. The main challenge of post-merger integration is further complicated significantly if it is in a Cross-border Merger or acquisition, with all issues frequently being compounded

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by a lack of language and culture bridging skills. Failure to accomplish this task satisfactorily, results in mutual distrust, de-motivation and negatively impacts the merged companies' competitiveness, profits and shareholder value. This is exactly what happened to Wal-Mart Germany.

Following are the main two factors that Contributed to the **Wal-Mart's unsuccessful efforts in Germany**:

1. **Specific Difference in German Consumer behavior and Culture in comparison with US consumers**

The biggest mistake of Wal-Mart was to ignore the local culture, local buying habits and impose an American boss on its German operations. Wal-Mart stores are designed for customers who are willing to spend lot of time shopping. But in Germany, the shopping hours are shorter: Shops close by 5 PM on weekdays, and no shopping on Sundays. This meant that customers don't have the habit of spending lots of time in a store – wandering around for the things they need. Coupled with this problem, German customers do not like to be assisted by Wal-Mart's friendly store assistants. Germans prefer to do their own search for bargains. Instead of understanding and adjusting to the culture of its clients, Wal-Mart tried to impose their Culture on to the Customers, which never worked out.

Germans like to see the advertised discount products upfront without having to ask the store assistant. This implies that the discount products must be placed at the eye level. Instead Wal-Mart chose to use its US style merchandise display strategy – where premium priced products are kept at eye level and discount products are kept at higher shelf or in the bottom racks. This irritated the German shoppers. Wal-Mart also got its store inventory wrong, Wal-Mart stocked its store with clothes, hardware, electronics and other non-food products were given much bigger floor space than food products, as a result more than 50% of the revenue was from non-food products. But other German retailers stock more of food products. For example for Metro, food products constitute more than 75% of the revenue. Germans prefer to bag groceries themselves into reusable carriers, or at least to pay a small fee for the avoidable sin of needing a plastic bag.

German's are introvert in nature and doesn't like display of emotion in public, as they always care for their private personal space. Employees, like the reserved customers, didn't care for Wal-Mart's public displays of corporate moral such as the morning cheer. The German Customer's even didn't liked to be accompanied by the Cheerful employees either, as they would like to make choices by themselves. These are cultural misunderstandings as well, but one could say the cultural philosophy of Wal-Mart could not survive in the context of a German culture with a Happy Planet Index significantly higher than America's

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2. Inefficient Top Management which ignored the relevance of local Culture

It was clear that the cultural insensitivity of Wal-Mart started right at the top management. To begin with, it appointed four CEOs during its first four years of operation. The first head of German operations was Rob Tiarks, an expat from the USA – who did not understand Germany or its culture. He had previously supervised around 200 Supercenters in America. Not only did he not speak any German. Due to his unwillingness to learn the language, English was soon decreed as the official company language at the management level. He also ignores the complexities and the legal framework of the German retail market, ignoring any strategic advice presented to him by former Wertkauf executives. This has resulted in the resignation of top three management executives from Wertkauf. His successors were also unsuccessful in integrating German Outlets with the Wal-Mart's Business model and culture.

Suggestions and Recommendations

Cross-border, Cross-cultural business is a challenge even for the biggest companies. Companies have to be sensitive to the local cultures and tailor their offerings to local market. To localize their offerings, Wal-Mart and other Companies that are going global companies must carry out cultural assessment of the Citizens of the Country before acquisitions. All their Corporate Business and Communication strategies should be based on this cultural assessment. This will help companies measure the effectiveness of its localization efforts and make adequate changes in local strategy and tactics as and when required. Considering the following steps would help Wal-Mart or any other Company while they are on lookout of Global alliance or business.

1. Political, Social, Economic and Cultural Analysis of the Country

Before expanding its business operations to a new country, the Company should understand the Political, Social, Economic and Cultural aspects of the Country in depth. Wal-Mart's case, Germany was selected primarily because of a central European location and economic attractiveness of the Wertkauf acquisition. But a serious research would have shown that Germany had strong national values resistant to change; possibly the most deeply rooted retail traditions in Western Europe. This could have avoided either Wal-Mart's selection of the Country or the strategies it has adopted in Germany.

2. Go global and think they are local

After conducting an in depth research about the prevailing trends in the customer's Country, the Company should be ready to modify its own identity to suit itself to the cultural differences without compromising much on its Corporate Mission.

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This step will also force organizations to clearly define globalization goals. Wal-Mart put the company name on many German stores before being fully established. Immediately, the run down stores left an impression on consumers who formed a negative image of the Wal-Mart name.

3. Employment of Cross-Cultural Management approaches like Hampden-Turner and Trompanaars Analysis

Employement of Hofsted's Culture Dimensions or HT&T Analysis will help Companies in understanding the minute cultural differences between the countries. For example, *Communitarianism over Individualism.*

Germans degree of communitarianism is on the higher side mainly because Germans prefer participating on a team. Most Germans see business as a group of related persons working together. But, most of Americans see their company as a set of functions, tasks, people, machines and payments in which individuals compete.

This difference in Cultural dimensions between the 2 countries has resulted an inside management conflict among the employees, which also resulted in resignation of efficient German executives from Wal-Mart post integration.

Understanding the cultural dimensions of a Country through proven Cross-Culture models will always help a company to formulate a specific approach that will encourage team spirit and joy among the Global Team.

4. Continuous Updation of Strategies to successfully withstand the local competition

It is very important for a Global firm to continuously analyse the impact of their various strategies on the local market. Understand the shortfalls, and modify it in such a way as to cater the local market in a much better way than the competitors. It is always better to scrutinize the strategies adopted by them with a panel of Local experts, as they will be having a better picture about the local consuming behavior and culture. Perceptions do matter a lot, So a surveys to find the customer's perception about the company will also help them to change their strategies accordingly.

Source: *Scribd.com*

Check Your Progress

Fill in the Blanks

4. As your business grows, your strategy needs to evolve to suit your ....
5. A ……………….to management focuses on leading employees, developing your management team and building your business strategy.
6. To increase market share a business has to take customers from its ……………….. or attract new customers………. .
7. .... are more suited to established enterprises and transactions involve commercial lawyers and considerable legal work.

4.9 SUMMARY

- As the business portfolio expands, strategic planning models must adapt and change with the growing business for optimal results to be recognized.

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- The role of a manager is to ensure that the resources are aligned to business strategy and that they are used effectively and efficiently. Manager responsibilities also include the line management and development of employees to both achieve organisational objectives and for employee personal growth.
- The "Greiner Curve" is a useful way of thinking about the crises that organizations experience as they grow. By understanding it, you can quickly understand the root cause of many of the problems you're likely to experience in a fast growing business. More than this, you can anticipate problems before they occur, so that you can meet them with pre-prepared solutions.
- Growing businesses face a range of challenges. As a business grows, different problems and opportunities demand different solutions - what worked a year ago might now be not the best approach.
- Your business' focus changes as it moves beyond the start-up phase. Identifying opportunities for growth becomes a priority to ensure the enterprise's sustainability.
- Many small businesses grow by taking opportunities to diversify, although there are **risks** because of limited resources on all fronts. Businesses should weigh up the risks and costs of opting for growth carefully against the benefits.
- Partnerships and joint ventures can offer both partners significant benefits, including sharing experience, skills, people, equipment and customer bases.

4.10 KEY TERMS

- **Red Tape:** Too much attention to rules and regulations.
- **Obsolete Technology:** Technology which is no longer used as it is out of date.
- **Automation:** Use of methods and machines to save labour.
- **Monopoly:** Possession of the sole right to supply which is not or cannot be shared by others.
- **Overheads:** Those expenses which are needed for carrying on a business e.g., rent advertising, salaries, light, not manufacturing costs.
- **Mass Production:** Production in large quantities.
- **Subsidy:** Money granted by a govt. to an industry to keep prices at a low level.
- **Unexplored sector:** Those sectors of the economy which are hitherto not served.

4.11 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Corporate-level strategic plans must cast the broad mission, vision and strategy in aggregate terms for the overall business, but it must also define strategic key

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outcomes that can be translated and measured at the business unit level (e.g., revenue growth, market share and profitability targets to name a few).

2. Business unit plans should map back to the broader strategic goals defined in the corporate strategic plan while also relating line-of-business level strategic goals, objectives and tactics that advance the business unit strategy.
3. The collaboration stage involves more flexible and behavioral approaches to the problems of managing a large organisation.
4. changed circumstances
5. disciplined approach
6. competitors
7. mergers and acquisitions

4.12 QUESTIONS AND EXERCISES

Short Answer Questions

1. Define growth synchronization.
2. What do you mean by growth creativity?
3. What are the key considerations to manage the momentum of business growth?
4. What are the key strategies to increase the market share?
5. Write a short note on getting growth through mergers and acquisition.
6. How to manage the skills and attitude?

Long Answer Questions

1. Discuss the importance of synchronization efforts to manage the business growth.
2. What are the major steps to achieve the business growth?
3. What do you mean by directing the growth resources mix? Discuss.
4. Discuss the Greiner's model of crisis induced growth.
5. What are the major growth fatigues? How to overcome these fatigues?
6. How to build a high growth roadmap?

UNIT 5 SECURING GROWTH IN EVERY DOMAIN

Structure

5.0 INTRODUCTION

If a business is to survive, it has to grow. Change is inevitable and should be embraced if success is the goal. With a solid business growth strategy, you will discover how change can be positive, and it will help your organization thrive and develop beyond your wildest dreams. Unless you are a person of independent means, you may have to learn how to prepare a business plan for a financial institution in order to secure the initial funds to set up your company. If you have been through this process in the past, your original business plan may seem far removed from the actuality of your organization today. In either situation, business plans are always worth revisiting and revising to secure your future growth.

Every company leader needs to plan for both the good times and the bad times. Those who are thriving in the current global economic downturn tend to have not only vision, but a solid growth strategy that takes into account how the company

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will react when market conditions are less favorable. A five year plan, or even a ten year plan, gives you something solid to aim for. The most important things to look at are financial and taxation options, diversification, and new opportunities. Growing businesses, whether small or large, new or well-established, will encounter not only new opportunities, but also problems. What worked in the past, may not work now. Growth may look great, but it could leave you struggling to keep up, under-resourced and overstretched. This in turn can lead to stress and an unhappy workforce. All of these situations put together could mean the demise of your company, if there is no plan. May be you do not feel, it is necessary to be spending precious time creating beautiful mission statements and so forth, but it is a fact that successful companies do have long-term goals and plans. A good plan is more than a vision; it is a set of strategies for where you are heading, how you will actually get there, and what you will do about any obstacles that may cross your path.

One thing to pay careful attention in the business plan is how you are managing your finances and accounting methods. As your company grows, so does your income and your paperwork. There may be far more tax efficient ways to handle your money as you grow, so make sure you plan to reassess your situation regularly.

Then, look at where you would like to get to. You started this company for a reason and the good news is, your plan is working. Sustainable strategies look at change, development, and diversification. Do not be a stick in the mud; though this company may be your baby, it is growing up. Innovative companies can become followers and even fail because they do not plan to change and develop. Finally, do not just create a business plan only to file it away in a drawer. Thinking it through is great, but you need to commit your business growth strategies to the memory of everyone in your organization. Consult and listen to them, then put your plan to paper and make it available to all. It needs to have the actions you will all take to ensure your business is manageable and its continued growth is spelled out clearly. Providing for all foreseeable events and how you will cope when things you cannot predict happen will be the key to your business success.

5.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Secure growth in every domain of business such as brand, product, market, competition, etc.
- Handle the un-sought consequences of growth
- Know the strategies to turn risks into opportunities

5.2 PRODUCT AND BRAND DOMAIN

More often than not, organizations spend a fortune on marketing and product development separately. This is the case with many companies that have different departments dealing with marketing and product development without any coordination. It is left to each of the departments to try and understand what the others are saying to form a cohesive and a coherent strategy. In the corporate world, it is common for the delivery teams to say that marketing is exerting pressure on them to reduce the time to market times and it is also common for the marketing department to say that the delivery teams do not understand what it takes to drive a product into the market. This leads to a general sense of dysfunction within the organization with teams at loggerheads with each other.

The solution in such cases is often a pragmatic look at what is causing the friction and have someone to liaise with the different departments. This means that there is a need for a product management team that tracks the entire product lifecycle starting from the conception and incubation to the marketing and after sales phases.

The need for such a product management team is often felt more in technology companies that have a laissez faire culture and there is no holistic and integrated approach to the need to develop and market products. This has resulted in spectacular failures in the mobile technology market with leading players like Nokia and Blackberry getting dethroned from their preeminent positions because they did not sense what the market wanted from them and at the same time did not intuit what makes for a great idea.

The two terms introduced above, market sensing and market intuition have entered the lexicon of management in recent years. Thanks to the profusion of companies and products in the business landscape, it is no longer enough to have a great idea or a great sales strategy. The important thing is to "sense" the market signals and "intuit" the market mood in such a way that brilliant ideas are turned into workable and marketable products. This brings to the fore the need for a product management team that can rely the information from the marketing department to the product development team and ensure that the end-product management is done in a professional and organized manner.

Companies that fail to read market signals and at the same time discard innovative ideas because they do not see the market potential often fail to achieve success in the marketplace. The point here is that great ideas should be translated into products and great products must be marketed appropriately. Since it is the responsibility of the research and design and the delivery teams to come up with great ideas and make products respectively and it is the responsibility of the marketing team to market this great product in a befitting manner, the question arises as to who is going to make them talk to each other and understand each other. Of course, even in companies that do not have product management teams, marketing and research and delivery teams do communicate.

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But, what if there was a coordinating team that sees the potential in new ideas from the perspective of the marketing team and at the same time intuits and senses what the market wants from the perspective of the research and delivery teams. So, this is where the product management team with its coordinating and liaising responsibilities comes into the picture. Hence, there is an acute need for a product management team in any organization that wishes to conquer the rapidly changing marketplace. In conclusion, there is a need to reduce the dysfunction within organizations and make them adopt a comprehensive strategy towards products and product management bridges this role perfectly.

Protecting Brand Domain

Anyone launching a product or service, whether on-line or off-line, will put a lot of thought into what to offer and how to go about offering it. In particular, most businesses invest a lot of time and money in creating a brand which will appeal to consumers and set its products or services apart from competitors. For this reason, a business will not want anyone else pretending to be associated with it and piggy-backing on its reputation.

The brand of a business is an example of intellectual property, and can be one of the most valuable assets of the on-line business. As an example, when the infamous boo.com went into liquidation, the most sought after assets of the business were the domain name and trademarks; in other words, the boo.com brand. It is therefore important to a business to secure the rights in its brand.

Choosing a Brand

Before settling on a brand, you should carry out some research to ensure that no one else is already using the proposed brand. Searching through an internet search engine and on the Companies House web site will be a good starting point to determine whether another business is trading under the name or using the brand.

Protecting your own rights is important, but it is equally important to ensure that you do not infringe the rights of other people. You should therefore check that someone has not already registered your chosen brand name as a trademark. A basic search can be carried out on the Intellectual Property Office (IPO) web site, or Trade Mark Agents can carry out a more detailed trademark clearance search for you.

A combination of the above searches will be the most useful approach: the trademark clearance search will identify whether the same or a similar brand has already been registered, whilst the internet searches may identify unregistered trademarks which are being used by other companies.

Establishing and Protecting a Brand

The strongest form of protection for a brand is a registered trademark. Basically, trademarks identify the products or services of traders, to enable consumers to distinguish between the products and services of different traders. You will often see

a brand with the letters 'TM' after it; this is to identify a trademark of the business. There is nothing to stop you putting 'TM' after your business name or brand, to show that you are asserting rights in it as a trademark. However, the symbol ® denotes a registered trademark and it is an offence to use this symbol with a trademark which has not been registered.

If a trademark is registered, special rules apply which simplify the way in which it can be protected. Unregistered trademarks can also be protected, however, it is much cheaper and easier for a business to enforce its rights in a registered trade mark than in an unregistered trademark. For this reason, businesses should consider obtaining registered trademarks to protect their brands. Most countries have their own systems for trademark protection and registration.

Product vs. Brand Management

Often, people get confused with the concepts of brand management versus product management. They tend to think that both are the same since they deal with a specific product being marketed and hence managed from incubation to sales. However, there are crucial differences in the way product managers and brand managers operate. For instance, brand management is all about creating a mind space for the product whereas product management is concerned with features and specifications as well. Further, brand management is often done in consumer product companies that have more products and product lines and hence the overall emphasis on the brand image is more. On the other hand, product managers operate in environments where they have to take care of a single product and hence bringing it to the market is their brief and so they tend to concentrate on the big picture.

Moreover, brand management is associated with consumer product companies whereas product management is associated with software companies. This is because consumer product companies need a top of the mind recall for their products and brands since they mass market them.

In other words, consumer product companies reach out to a larger audience and wider customer base whereas software companies typically have lesser numbers of customers to contend with. Further, brand managers have to "sell" the product by creating an overall image for the brand that consists of creating a value proposition based on the perceived value that the product or the brand offers. Product managers on the other hand (in software companies) have to concentrate on the value proposition that features and technology deliver.

Apart from these differences, brand managers have to plan for brand obsolescence which means that they need to bring in newer products to keep the product line replenished. Product managers on the other hand need to concentrate on upgrades and versions of the same product instead of trying to launch an entirely different product. There is also the aspect of the lengthy product lifecycle from conceptualizing to bringing to market in case of software products whereas brand managers typically deal with shorter lifecycles. This makes the task of a brand manager harder in some

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cases where the urgency is more whereas the product manager has some more time. In other cases, the brand manager can relax after the product launch since sales drive the brand management rather than the marketing and branding exercises that would have been completed by then. Product managers on the other hand have to be edge after the rollout since they have to be on the lookout for glitches and bugs in the software that might derail the project the delay the customer experience.

In conclusion, brand management is more about perception and the perceived value whereas product management is more about tangible and measurable value propositions. This is expressed in the customer satisfaction surveys where brand users of consumer products rate the brand according to the perceived levels of satisfaction whereas product users in software rate the product according to the specific and measurable benefits that it brings to them. Finally, brand management is a high stakes game because brands fail at an alarming rate and any consumer company with some seed capital can enter the market. In the case of software products, the products are launched only when the companies have deep pockets and can stay the course. Of course, the dotcom boom and the subsequent bust was all about software companies trying to market themselves like brands and the reason for the bust was that they forgot the basic rules of product management.

Case Study of Dupont: Marketing of "Disappearing" Products

Imagine how tough it would be to responsible for marketing a "disappearing" product. That's the challenge faced by a group of marketers at DuPont, a company with a portfolio of brands that, for the most part, reach final consumers only as ingredients in finished products. Teflon non-stick coating, Lycra Fibers, Freon refrigerant, Kevlar bullet-resistant fabric, Stainmaster carpet—these well-known DuPont products share the distinction of being used in the manufacture of products that ultimately bear some other company's brand.

Jamie Murray, the person in charge of managing what people think of the overall DuPont brand, doesn't mind marketing products that can't be found on store shelves or ordered from catalogs. "We are the youngest 200 year-old company you will ever meet. We are always out there searching for those needs that we can invent something to satisfy."

The company's slogan, "better things for better living," hints broadly at the variety of needs DuPont has satisfied over the years. When the computer industry required new forms of insulation for smaller and smaller electrical components, or the aerospace program needed stronger material for satellite tethers, or firefighters wanted fire-retardant suits, DuPont researchers headed to the laboratory. The company owns almost 2,000 trademarks and markets them in 200 countries around the world.

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The challenges DuPont faces in marketing is its ingredient brands are no less daunting than the challenges it faces in inventing them, so the company has developed five key principles to guide its actions. The first is *personality management*—controlling what the brand stands for and means to consumers. Gary Johnston, national marketing communications manager for nylon furnishings, says that, for DuPont, it's "science, business savvy, and a moral core." The second principle is *visibility management*, which entails creating awareness and familiarity for the invisible ingredients through integrated marketing communications.

The third is *target management*, which Johnston says involves "very clearly defining who it is that you need to connect with." For a brand such as DuPont, that includes not only the end consumer, but also the many constituencies in the manufacturing or value chain. The fourth principle is *marketing management*, which has to do with understanding the dynamics of the marketplace so, the company can fashion the best connections with its target. Finally, there is *reputation management*, which is a proactive approach to help people understand what the company is and what it is about.

All of these principles are evident in DuPont's marketing of Lycra. To connect with consumers worldwide, Lycra management started a global campaign in 1994 to make customers familiar with the Lycra name and icon. To emphasize what the product does, the company used the tagline "Nothing moves like Lycra," which they added to in 1996 with the line "Clothes that move the way you do." As a result, more than 50 per cent of consumers recognize the brand name and, more important, ask for garments made with Lycra. And it's rare when customers ask for a fiber by name.

To reach consumers, however, Lycra must be marketed to manufacturers of garments and retailers. This requires careful cultivation on the part of Lycra management. An example is the successful Wool Plus Lycra programme initiated in 1995. For this venture, Lycra management teamed with the International Wool Secretariat to produce woven fabrics made with wool and Lycra. This union is

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particularly noteworthy because it is the first time that two fiber groups have joined to promote a product globally. It works because the union provides value to both groups. The venture gives wool a new value-added feature by leveraging recognition of products off the well-known Lycra name. DuPont can market Lycra beyond its traditional markets in areas where it has little expertise. Moreover, because the program was sponsored evenly by the two partners, working together means that each group has to expend fewer funds. As a result, each side gets increased promotional awareness and market visibility for fewer dollars.

Understanding the dynamics of the marketplace has led DuPont to invest in research to develop a newer, softer Lycra product. As the baby boomer market ages, it also gains a few pounds, sags a little, and moves up to a larger size despite diets and exercise. Consequently, these consumers are looking for more support, lift, and control in bodywear, undergarments, and activewear. The new product, Lycra Soft or Type 902C, has higher elongation that almost doubles the stretch qualities and gives it a consistent level of pressure for all-over control, and it has significant recovery force—all important characteristics to aging boomers.

By developing new products such as Lycra Soft, DuPont not only helps its own profit line, but also that of its immediate customers. Firms such as Wacoal Japan, a Kyoto-based innerwear giant, have begun using Lycra Soft in the Far East in a control brief called "Magic Pants." According to Alan Fisher, Vice President of merchandising at the Wacoal America unit, "It's a premium fiber … (and) it certainly has the stretch advantages of all-over fit and function, and less yardage is used. Prettier, more feminine-looking shapewear items can be made."

Firms in the United States are not missing out on this opportunity. Maidenform is already into wear-test trials with it, so US consumers may soon see these products in stores around the country. One store, in particular, where they may find garments containing Lycra Soft is Macy's, which is negotiating for use of the product in garments sold through Federated Stores.

Some manufacturers are even willing to tie their names to that of Lycra. A case in point is Liz Claiborne, a giant in women's clothing. The new line, called Liz and Lycra, includes leggings, pants, turtlenecks, a crewneck, an A-line dress, an A-line wrap skirt, and two jackets. All pieces will have a special Liz and Lycra hangtag.

The decision to launch Liz and Lycra was made based on information from Europe, which showed stretch items increasing in popularity, and on market research in which the company found that women wanted versatility, comfort, and durability in a garment. The products were wear-tested by staff at Claiborne headquarters, who found that Lycra eliminated the bagging which generally occurs at the knees on leggings and stretch pants. Given these good results, the new line kicked off in Macy's Herald Square in March, 1996 with in-store events, following a New York Times ad on the preceding Sunday. The ads and

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instore visuals featured American Ballet Theater principal dancer Julie Kent photographed by Jose Picayo. Thus, the creation of Liz and Lycra benefited not only Liz Claiborne and DuPont, but also Macy's, which is considering adding its own products that include Lycra. Association with the American Ballet Theater is also a plus for all parties. ABT adds cachet to the Liz, Lycra, and Macy's brands and also creates a positive association between each brand and the ballet—a sort of good citizenship status. The ballet gets promotion at no charge to it.

High standards are required of all the partners with whom DuPont enters into arrangements. "One of the most serious challenges any ingredient brand faces is [that] when your brand becomes very popular and very strong, lots of companies want to use it," says Mary.

Kopf, brand manager for Kevlar and Nomex. "Unfortunately, not all of those companies have high ethical standards, so you might run into what we call counterfeiters. These are companies who either don't buy any of your product at all, or companies who may use a tiny bit of it, or use it sometimes and other times not. But they label the product as if it contains our ingredient, and what we have to do as responsible trademark owners is make sure that we pursue those counterfeiting situations."

Enforcing the proper use of its ingredient brands is well worth the cost to DuPont, which sees those brands as the source of the company's success during its almost 200-year history. To enforce the Lycra name, DuPont has a toll-free number in the United States (1-800-64-Lycra) for customers and final consumers to report any suspected infringement or counterfeiting. It also runs campaigns stating that Lycra is trademarked, and its staff continually tests garments for Lycra brand authenticity worldwide. When labelled products that do not contain the Lycra brand are identified, the company takes steps—frequently legal steps.

"Your competition may try to imitate you technically, they may try to imitate you with service, but one thing they can't imitate is your brand," Kopf says. In this case, the appropriate use of the Lycra brand protects not only DuPont, but also Liz Claiborne, the International Wool Secretariat, Macy's, Maidenform, and any of DuPont's hundreds of partners. They all benefit from the value added by the Lycra name.

Questions for Discussion

1. What are the markets for Lycra?
2. How does the "selling-buying" relationship that occurs when Liz Claiborne wants to team up with Lycra differ from that in which a consumer purchases a garment that contains Lycra?
3. What type of buying situation occurs when Liz Claiborne wants to team with DuPont to obtain Lycra for the Liz and Lycra line?

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4. Why would Liz Claiborne want to use Lycra rather than some other elastic-type product that might be less expensive?
5. DuPont spends tens of millions of dollars for consumer advertising for Lycra and for tracking down counterfeiters. Does it make sense for the company to spend money advertising to a market that it does not sell to directly? Does it make sense to track down counterfeiters?

5.3 MARKET AND COMPETITION DOMAIN

Consumer and business markets have distinct characteristics by which they function. Earlier, importance was given mainly in understanding customer and their business. But in this age of technology and globalization companies cannot afford to ignore competition. Many companies are lowering their cost by outsourcing production to Asian countries. Companies must keep an eye on strategies and marketing programme undertaken by competitors, to remain successful.

Michael Porter's five force model is appropriate in identifying competitive forces, which affect business in any given environment. These five forces are the threat of companies from same segment, threat of new entrants in the segment, threat from substitute products, threat from the increase in consumer's bargaining power and threat from supplier's bargaining power. If in the same segment there are too many players, if the segment is reaching saturation, if no further scope of expansion than to continue operation is difficult for the company. If the entry barrier are few and far than it makes easy for companies to enter, making segment un-attractive but if the entry barriers are tough than the company is better off in entering the segment. Substitute products are big threat and limit scope of a price increase. If consumers are better organized, have a choice in terms of product available and can create pressure on profits, making segment un-attractive. Similarly, if suppliers are better organized, less in number and supply is a key raw material for final output than also segment is unattractive.

Possible Competitive Moves

Another way to consider which competitive strategy is best for your company is by considering which of the following company groups you are in:

- Market Leader is a company with the largest market share (such as Coca Cola). Market leaders need to invest heavily in building sales through increasing market demand for their products, and also need to promote and advertise heavily to stop competitors stealing their share. The high volume sales of the market leader enable them to be profitable despite the need to invest heavily in their brand. Few SME's are market leaders due to the scale and investment required.

- Market Challenger is a company which is trying to secure share from a strong market leader. They need to invest very heavily to gain share and have a much focused growth strategy. Inevitably, profitability of a challenger company is lower than the market leader due to competitive investment required. This position is usually limited to large global players who have the capital required to build market share over a long period – for example, this could be Pepsi trying to take share from Coca Cola. Few SME's are able to be market challengers due to the level of investment required.
- **Market Follower:** a market follower position can be profitable as it may be possible to take a share of the large market created by the market leader, for example by copying the brand leader at a lower price, or making something better or cheaper. For example, the soft drinks producer Corrs entered the UK market by developing an acceptable own brand alternative to Coke – the market was sufficiently large for some Coke drinkers to accept a different but cheaper Cola drink.
- **Market Nicher:** this is when a company targets a small segment of a large market. For example, an egg company may develop eggs which are enriched with Omega 3 – this is a niche segment which will not be sufficiently profitable for a large company to invest in, but can represent a significant volume and high value for a small company. Most SME's follow a market niche strategy, as they are able to become strong players in a small sector of the market and thus charge premium prices.

Dealing with threats is one thing but if companies are not able to identify their competition than it can cause serious consequences. In recent years technology and internet have change the way business is conducted. Many companies were caught napping with respect to competition coming from the internet. Retailers like Wal-Mart and Target are facing competition from online retailer Amazon.com. Companies see competition in a direct format. This direct format consists of industry structure, number of players, entry-exit barriers, business model and ability to globalize. Market looks at competition in much more holistic manner where different products can satisfy a similar need. For example, for teens fashion can be explained by apparel to a music player, so with limited budget choice can only be one. Market approach increases the number of competitor in a real and abstract manner.

Companies after going through the process of identifying competition, also need to do in-depth analyze in terms of nature, strategy, strength, weakness and operation pattern. Companies following similar strategy need to group existing player in a matrix of product offering. For example, in the laptop market, Apple is on the high end where as Dell offers low end models. Companies need to understand competitor's motive and goal to be in the market. US companies believe in shareholder value where as Japanese companies believe in market share. Next companies need to understand competitor's strength and weakness. For example, GM has good reach

in USA but its weakness is quality where as Toyota does not have extensive dealer network but offers quality. Competitor's operating pattern also need careful study like competitor's action in the face of challenge to their position in the market.

To deal with competition companies need to design an intelligence system. Companies need to identify parameters which will help in analyzing the competition. It is then followed by gathering information for which source and methodology have to be finalized. Once the information is collected it has to be analyzed and sent to appropriate decision makers to act upon. As there are cost involved in design and maintaining such system, some companies give out contracts to companies which specialize in intelligence gathering activity.

The information from system is helpful in designing marketing strategies. Marketing strategy evolve depending on company position in the market. Market leaders, market challenger, market follower and niche players are four types of position strategy companies follow.

Dealing with competition is not an easy task and it requires dedicated resources of manpower, system and budget. Any lapse from company would result in decrease of market share and profit.

5.4 ASSETS AND CAPACITY DOMAIN

One of the major financial functions is the management of fixed assets. Asset management module primarily maintains asset register, which provides information about asset related transactions. Asset Management thus helps in keeping track of fixed assets, handling fixed asset depreciation for fiscal reporting and revaluation of asset. Budgetary control (BC) module is another important finance module which helps in planning and comparison of actual results with budgeted amount and quantity. This module helps business units to calculate business target, budget release as well as provide extensive analytic tools for budget monitoring.

Asset Management: Some of the important functionalities are:

- Investment and disposal method.
- Users' defined depreciation method.
- Periodic revaluation of fixed assets.
- Business and insurance information

This module is linked to general ledger to post depreciation result as well as to accounts payable and accounts receivable for buying and disposing assets. A few important master data parameters for Asset Management are:

1. Defining a schedule chart of account which is needed for linking to general ledger.
2. Depreciation method.
3. Remainder value or percentage.

- **Investment and disposal method:** This procedure is applicable when a new asset is acquired by the organization. While payment is made through accounts payable for asset acquisition, an investment transaction is generated, and the result is posted to general ledger. The asset is registered in asset management and is linked to a depreciation method. The asset is then ready for periodic depreciation and revaluation. Similarly, when an asset is sold / discarded, a disposal transaction is created in this module which generates a sales invoice in accounts receivable and post relevant transactions in general ledger.
- **Users' defined depreciation method:** This functionality provides a flexible way of maintaining depreciation cost. The system allows a depreciation method which determines how the system calculate depreciation such as by a fixed amount, by a percentage of purchase price/ book value or an amount on the basis of number of years in operation. The system also allows accounting for remainder value. The depreciation method may be applicable globally for the entire organization or specific for one or more groups of assets.
- **Periodic revaluation of fixed asset:** This functionality enables periodic revaluation, which is a positive correction of book value of the asset, to account for market price changes. Revaluation of asset is linked to some user defined indices which are integrated in the system. Revaluation amount is, normally, calculated by the system during fiscal year closing and result is posted as yearend transaction in general ledger.
- **Business and Insurance information:** Under this functionality, additional information regarding fixed assets which are non-financial in nature, are stored in a users' defined manner. Information is stored after classifying assets under various groups and sub groups. Details of insurance policies are also maintained and are linked to fixed assets.
- **Budgetary Control Module:** This functionality enables registering, handling and monitoring of budget amount by ledger accounts. This functionality also helps in preparing performance budget for reference units (such as fuel consumption for vehicles), in addition to price based financial budget. Budget amounts and quantities are planned over the year and broken down into period values. It is also possible to set up a flexible budget by distinguishing between fixed and variable budget.

Capacity Planning

The production system design planning considers input requirements, conversion process and output. After considering the forecast and long-term planning organization should undertake capacity planning.

Capacity is defined as the ability to achieve, store or produce. For an organization, capacity would be the ability of a given system to produce output within the specific Time period. In operations, management capacity is referred as an amount of the input resources available to produce relative output over period of time.

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In general, terms capacity is referred as maximum production capacity, which can be attained within a normal working schedule. Capacity planning is essential to be determining optimum utilization of resource and plays an important role decision-making process, for example, extension of existing operations, modification to product lines, starting new products, etc.

Strategic Capacity Planning

A technique used to identify and measure overall capacity of production is referred to as strategic capacity planning. Strategic capacity planning is utilized for capital intensive resource like plant, machinery, labor, etc.

Strategic capacity planning is essential as it helps the organization in meeting the future requirements of the organization. Planning ensures that operating cost are maintained at a minimum possible level without affecting the quality. It ensures the organization remain competitive and can achieve the long-term growth plan.

Capacity Planning Classification

Capacity planning based on the timeline is classified into three main categories long range, medium range and short range.

- **Long Term Capacity:** Long range capacity of an organization is dependent on various other capacities like design capacity, production capacity, sustainable capacity and effective capacity. Design capacity is the maximum output possible as indicated by equipment manufacturer under ideal working condition.
  - Production capacity is the maximum output possible from equipment under normal working condition or day.
  - Sustainable capacity is the maximum production level achievable in realistic work condition and considering normal machine breakdown, maintenance, etc.
  - Effective capacity is the optimum production level under pre-defined job and work-schedules, normal machine breakdown, maintenance, etc.
- **Medium Term Capacity:** The strategic capacity planning undertaken by organization for 2 to 3 years of a time frame is referred to as medium term capacity planning.
- **Short Term Capacity:** The strategic planning undertaken by organization for a daily weekly or quarterly time frame is referred to as short term capacity planning.

Goal of Capacity Planning

The ultimate goal of capacity planning is to meet the current and future level of the requirement at a minimal wastage. The three types of capacity planning based on goal are lead capacity planning, lag strategy planning and match strategy planning.

Factors Affecting Capacity Planning

Effective capacity planning is dependent upon factors like production facility (layout, design, and location), product line or matrix, production technology, human capital (job design, compensation), operational structure (scheduling, quality assurance) and external structure (policy, safety regulations).

Forecasting vs. Capacity Planning

There would be a scenario where capacity planning done on a basis of forecasting may not exactly match. For example, there could be a scenario where demand is more than production capacity; in this situation, a company needs to fulfill its requirement by buying from outside. If demand is equal to production capacity; company is in a position to use its production capacity to the fullest. If the demand is less than the production capacity, company can choose to reduce the production or share it output with other manufacturers.

5.5 FINANCE AND PROFITABILITY DOMAIN

Financial Planning is the process of estimating the capital required and determining its competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

Objectives of Financial Planning

Financial Planning has got many objectives to look forward to:

- **Determining capital requirements:** This will depend upon factors like cost of current and fixed assets, promotional expenses and long-range planning. Capital requirements have to be looked with both aspects: short-term and long-term requirements.
- **Determining capital structure:** The capital structure is the composition of capital, i.e., the relative kind and proportion of capital required in the business. This includes decisions of debt-equity ratio-both short-term and long-term.
- Framing financial policies with regards to cash control, lending, borrowings, etc.

A finance manager ensures that the scarce financial resources are maximally utilized in the best possible manner at least cost in order to get maximum returns on investment.

Importance of Financial Planning

Financial Planning is the process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as:

- Adequate funds have to be ensured.

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- Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
- Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.
- Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company.
- Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.
- Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability and profitability in concern.

Checklist for Securing Profitability

Making a profit is the most important — some might say the only objective of a business. Profit measures success. It can be defined simply: Revenues – Expenses = Profit. So, to increase profits you must raise revenues, lower expenses, or both. To make improvements you must know what's really going on financially at all times. You have to watch every financial event without any kind of optimistic filter.

The following are the key checks to secure profitability:

1. Are You Making a Profit?

Analysis of Revenues and Expenses

Since profit is revenues less expenses, to determine what your profit is you must first identify all revenues and expenses for the period under study.

Have you chosen an appropriate period for profit determination?

For accounting purposes firms generally use a twelve month period, such as January 1 to December 31 or July 1 to June 30.

The accounting year you select doesn't have to be a calendar year (January to December); a seasonal business, for example, might close its year after the end of the season. The selection depends upon the nature of your business, your personal preference, and/or possible tax considerations.

Have you determined your total revenues for the accounting period? In order to answer this question, consider the following questions:

- What is the amount of gross revenue from sales of your goods or services? (Gross Sales)
- What is the amount of goods returned by your customers and credited? (Returns and Rejects)
- What is the amount of discounts given to your customer and employees? (Discounts)
- What is the amount of net sales from goods and services? (Net Sales = Gross Sales – (Returns and Rejects + Discounts).

- What is the amount of income from other sources such as interest on bank deposits, dividends from securities, rent on property leased to others? (Non-operating Income).
- What is the amount of total revenue? (Total Revenue = Net Sales + Non-operating Income).

Do you know what your total expenses are? Expenses are the cost of the goods sold and the services used in the process of selling goods or services. Some common expenses for all businesses are:

- Cost of goods sold: (Cost of Goods Sold = Beginning Inventory + Purchases – Ending Inventory);
- wages and salaries (Don't forget to include your own - at the actual rate you'd have to pay someone else to do your job);
- rent;
- utilities (electricity, gas, telephone, water, etc.);
- delivery expenses;
- insurance;
- advertising and promotional costs;
- maintenance and upkeep;
- depreciation (Here you need to make sure your depreciation policies are realistic and that all depreciable items are included);
- taxes and licenses;
- interest;
- bad debts;
- professional assistance (accountant, attorney, etc.).

There are, of course, many other types of expenses, but the point is that every expense must be recorded and deducted from your revenues before you know what your profit is. Understanding your expenses is the first step toward controlling them and increasing your profit.

Financial Ratios

A **financial ratio** is an expression of the relationship between two items selected from the income statement or the balance sheet. Ratio analysis helps you evaluate the weak and strong points in your financial and managerial performance.

Do you know your current ratio?

The current ratio (current assets divided by current debts) is a measure of the cash or near cash position (liquidity) of the firm. It tells you, if you have enough cash to pay your firm's current creditors. The higher the ratio, the more liquid the firm's position is and, hence, the higher the creditability of the firm. Cash, receivables, marketable securities, and inventory are current assets. Naturally, you need to be

realistic in valuing receivables and inventory for a true picture of your liquidity, since some debts may be uncollectible and some stock obsolete. Current liabilities are those which must be paid in one year.

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Do you know your quick ratio?

Quick assets are current assets minus inventory. The quick ratio (or acid-test ratio) is found by dividing quick assets by current liabilities. The purpose, again, is to test the firm's ability to meet its current obligations. This test doesn't include inventory to make it a stiffer test of the company's liquidity. It tells you if the business could meet its current obligations with quickly convertible assets should sales revenues suddenly cease.

Do you know your total debt to net worth ratio?

This ratio (the result of total debt divided by net worth then multiplied by 100) is a measure of how the company can meet its total obligations from equity. The lower the ratio, the higher the proportion of equity relative to debt and the better the firm's credit rating will be.

Do you know your average collection period?

You find this ratio by dividing accounts receivable by daily sales. (Daily sales = annual credit sales divided by 360). This ratio tells you the length of time it takes the firm to get its cash after making a sale on credit. The shorter this period the quicker the cash inflow is. A longer than normal period may mean overdue and uncollectible bills. If you extend credit for a specific period (say, 30 days), this ratio should be very close to the same number of days. If it's much longer than the established period, you may need to alter your credit policies. It's wise to develop an aging schedule to gauge the trend of collections and identify slow payers. Slow collections (without adequate financing charges) hurt your profit, since you could be doing something much more useful with your money, such as taking advantage of discounts on your own payables.

Do you know your ratio of net sales to total assets?

This ratio (net sales divided by total assets) measures the efficiency with which you are using your assets. A higher than normal ratio indicates that the firm is able to generate sales from its assets faster (and better) than the average concern.

Do you know your operating profit to net sales ratio?

This ratio (the result of dividing operating profit by net sales and multiplying by 100) is most often used to determine the profit position relative to sales. A higher than normal ratio indicates that your sales are good, that your expenses are low, or both. Interest income and interest expense should not be included in calculating this ratio.

Do you know your net profit to total assets ratio?

This ratio (found by multiplying by 100 the result of dividing net profit by total assets) is often called return on investment or ROI. It focuses on the profitability of the overall operation of the firm. Thus, it allows management to measure the effects of its policies on the firm's profitability. The ROI is the single most important measure of a firm's financial position. You might say it's the bottom line for the bottom line.

Do you know your net profit to net worth ratio?

This ratio is found by dividing net profit by net worth and multiplying the result by 100. It provides information on the productivity of the resources the owners have committed to the firm's operations.

All ratios measuring profitability can be computed either before or after taxes, depending on the purpose of the computations. Ratios have limitations. Since the information used to derive ratios is itself based on accounting rules and personal judgments, as well as facts, the ratios cannot be considered absolute indicators of a firm's financial position. Ratios are only means of assessing the performance of the firm and must be considered in perspective with many other measures. They should be used as a point of departure for further analysis and not as an end in themselves.

2. Sufficiency of Profit

The following questions are designed to help you measure the adequacy of the profit your firm is making. Making a profit is only the first step; making enough profit to survive and grow is really what business is all about.

- Have you compared your profit with your profit goals?
- Is it possible your goals are too high or too low?
- Have you compared your present profits (absolute and ratios) with the profits made in the last one to three years?
- Have you compared your profits (absolute and ratios) with profits made by similar firms in your line?

A number of organizations publish financial ratios for various businesses, among them Robert Morris Associates, Dun and Bradstreet and Statistics Canada. Your own trade association may also publish such studies. Remember, these published ratios are only averages. You probably want to be better than average.

3. Trend of Profit

Have you analyzed the direction your profits have been taking?

The preceding analyses, with all their merits, report on a firm only at a single time in the past. It is not possible to use these isolated moments to indicate the trend of your firm's performance. To do a trend analysis performance indicator (absolute amounts or ratios) should be computed for several time periods (yearly for several years, for example) and the results laid out in columns side by side for easy comparison, you can then evaluate your performance, see the direction it's taking, and make initial forecasts of where it will go.

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Does your firm sell more than one major product line or provide several distinct services? If it does, a separate profit and ratio analysis of each should be made:

- to show the relative contribution by each product line or service;
- to show the relative burden of expenses by each product or service;
- to show which items are most profitable, which are less so, and which are losing money; and
- to show which are slow and fast moving.

4. **Mix of Profit**

The profit and ratio analyses of each major item help you find out the strong and weak areas of your operations. They can help you make profit-increasing decisions to drop a product line or services or to place particular emphasis behind one or another.

5. **Records**

Good records are essential. Without them a firm doesn't know where it's been, where it is, or where it's heading. Keeping records that are accurate, up-to-date, and easy to use is one of the most important functions of the owner-manager, his or her staff, and his or her outside counsellors (lawyer, account, bankers).

Basic Records

Do you have a general journal and/or special journals, such as one for cash receipts and disbursements?

A general journal is the basic record of the firm. Every monetary event in the life of the firm is entered in the general journal or in one of the special journals.

Do you prepare a sales report or analysis?

Do you have sales goals by product, department, and accounting period (month, quarter, and year)?

Are your goals reasonable?

Are you meeting your goals?

If you aren't meeting your goals, try to list the likely reasons on a sheet of paper. Such a study might include areas such as general business climate, competition, pricing, advertising, sales promotion, credit policies, and the like. Once you've identified the apparent causes you can take steps to increase sales (and profits).

6. **Buying and Inventory System**

Do you have a buying and inventory system?

The buying and inventory systems are two critical areas of a firm's operation that can affect profitability.

Do you keep records on the quality, service, price and promptness of delivery of your sources of supply?

Have you analyzed the advantages and disadvantages of buying from several suppliers and buying from a minimum number of suppliers?

Have you analyzed the advantages and disadvantages of buying through cooperatives or other such systems?

Do you know?

- How long it usually takes to receive each order?
- How much inventory cushion (usually called safety stock) to have so you can maintain normal sales while you wait for the order to arrive?
- Have you ever suffered because you were out of stock?
- Do you know the optimum order quantity for each item you need?
- Do you know (or can you) take advantage of quantity discounts for large size single purchases?
- Do you know your costs of ordering inventory and carrying inventory?

The more frequently you buy (smaller quantities per order), the higher your average ordering costs (clerical costs, postage, telephone costs, etc.) will be, and the lower the average carrying costs (storage, loss through pilferage, obsolescence, etc.) will be. On the other hand, the larger the quantity per order, the lower the average ordering cost and the higher the carrying costs. A balance should be struck so that the minimum cost overall for ordering and carrying inventory can be achieved.

7. Do You Keep Records of Inventory for Each Item?

These records should be kept current by making entries whenever items are added to or removed from inventory. Simple records on 3 × 5 or 5 × 7 cards can be used with each item being listed on a separate card. Proper records will show for each item: quantity in stock, quantity on order, date of order, slow or fast seller, and valuations (which are important for taxes and your own analyses).

Other Financial Records

Do you have an accounts payable ledger? This ledger will show what, whom, and why you owe. Such records should help you make your payments on schedule. Any expense not paid on time could adversely affect your credit, but even more importantly such records should help you to take advantage of discounts which can help boost your profits.

Do you have an accounts receivable ledger?

This ledger will show who owes money to your firm. It shows how much is owed, how long it has been outstanding, and why the money is owed. Overdue accounts could indicate that your credit granting policy needs to be reviewed and that you may not be getting the cash into the firm quickly enough to pay your own bills at the optimum time.

Do you have a cash receipts journal?

This journal records the cash received by source, day, and amount.

Do you have a cash payments journal?

This journal will be similar to the cash receipts journal but will show cash paid out instead of cash received. The two cash journals can be combined, if convenient.

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Do you prepare an income (profit and loss or P&L) statement and a balance sheet?

These are statements about the condition of your firm at a specific time and show the income, expenses, assets, and liabilities of the firm. They are absolutely essential.

Do you prepare a budget?

You could think of a budget as a "record in advance," projecting "future" inflows and outflows for your business. A budget is usually prepared for a single year, generally to correspond with the accounting year. It is then, however, broken down into quarterly and monthly projections.

There are different kinds of budgets: cash, production, sales, etc. A cash budget, for example, will show the estimate of sales and expenses for a particular period of time. The cash budget forces the firm to think ahead by estimating its income and expenses. Once reasonable projections are made for every important product line or department, the owner-manager has set targets for employees to meet for sales and expenses. You must plan to assure a profit. And you must prepare a budget to plan.

5.6 NETWORKS AND RELATIONSHIP DOMAIN

Selling and Marketing is no longer the same what it used to be few decades ago. Traditional methods of sales and promotions have long been relegated to history. Technology, Internet as well as globalization have redefined every aspect of Marketing and Sales. Organizations have realised the importance of being in tune with the markets and customers. They are also embarking on investing on relationship with the customers for the Relationship Management aspect is becoming very important for the success of the business. Companies are tuning in to identify and get to know the customer better and anticipate his needs for tomorrow. Customer feedbacks as well as needs are being seen as vital information to product innovation as well as for customer retention. Especially in the recent times where social networking is gaining ground, customer contact and relationship management is becoming more visible and instantaneous.

Organizations have realised that Relationship Marketing is not related to the marketing function alone. This concept is to be embraced at the corporate level and implemented through all departments covering both internal as well as external customers, suppliers and other agencies that the organization engages with.

As far as the Marketing and Sales is concerned, an organization can be involved in multiple formats including B to B and B to C. Sales and Marketing is always

a network of multi layered and multi level partners, intermediaries, vendors and agents, etc. Relationship marketing aspect assumes high importance for the success of every transaction through the myriad networks. The organization's relationships can make or break its ultimate positioning in the market as well as affect the quality of the transaction with the end customer.

If an organization is engaged in selling products or services to on B–C model, the dynamics of Relationship Management will be different from a B–B mode. Let us take the case of a Multi National Company engaged in manufacturing of Computers. The company would be sourcing or manufacturing at various geographical locations across the globe for supplies to different markets. It can be manufacturing at Company owned factories in different countries or using contract manufacturing partners to manufacture on their behalf. The products are transported through service providers using multi modal transportation networks and a host of agents handling the cargo movement from end-to-end. The products finally are sold to a wholeseller or stockiest or sold by the company to the institutional buyers. There can also be cases where the company maintains its own third party warehouses and sells to the retailers. In such complex networked supply chain the organization has got to ensure that the products are supplied timely, as per customer requirement.

The organizations success in being able to reach its products to the customer organization timely and successfully over a long period depends upon the seamless working of the entire network. This is possible when the organization is able to build a relationship with every stake holder in the network and make that difference. In such complex networks, the process alone will not be able to sustain the transactions and the relationship or the emotional connect with the people involved is what makes things happen. Organizations will necessarily have to invest in building strong partnerships with principle service providers and partners so that they are able to get the partners to deliver a happy experience to the end customer too.

When the customer is an institutional customer or a business, the complexities of transactions pose a challenge to the organizations. In all such businesses the organizations set up dedicated Key Account Relationship Managers and teams at various levels to ensure that they reach out to the customer and build relationship at multiple levels where it matters. Therefore there can be multiple levels of relationship building that one needs to engage with including at the actual user level to the procurement, technical as well as management level at the customer end. The organizations would have to accordingly formulate a relationship management strategy and process as well as create a team to build and grow the relationship in such cases. At the end the dedicated focus and investment made into such relationships pays well in terms of future business opportunities.

5.7 GEOGRAPHY AND SPREAD DOMAIN

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As a businessman, you need to be know where your customers are coming from, and you'll want to research where your customers live to make sure that your business is well-placed. This is also a good way to target potential new customers. Use your existing customer geographic market and then ask yourself, "Where can I find potential customers?"

To locate your business' customer geographic market area, here's some advice:

- **Start with the addresses of your existing customers:** Wherever you have a concentration of existing customers, you also have a concentration of potential customers.
- **Follow your inquiries:** Inquiries are customers waiting to happen. The addresses of your inquiries will define target geographic areas where people have demonstrated interest in the products and services you offer.
- **Locate your noncustomers:** Identify geographic areas with concentrations of people who have the attributes of your current customers but who don't yet buy from you. These are noncustomers who are also potential customers.
- **Call advertising representatives at the leading publications that serve your business sector:** Media outlets conduct and purchase research, and often they share information as a way to convince you of their ability to carry your marketing message to the right prospects.
- **Contact your industry association:** Inquire about industry market analyses that detail geographic areas with concentrated interest in your offerings.

5.8 PEOPLE AND ORGANISATIONAL DOMAIN

We often hear the term Human Resource Management, Employee Relations and Personnel Management used in the popular press as well as by Industry experts. Whenever we hear these terms, we conjure images of efficient managers busily going about their work in glitzy offices. In this article, we look at the question "what is HRM?" by giving a broad overview of the topic and introducing the readers to the practice of HRM in contemporary organizations. Though as with all popular perceptions, the above imagery has some validity, the fact remains that there is much more to the field of HRM and despite popular depictions of the same, the "Art and Science" of HRM is indeed complex. We have chosen the term "Art and Science" as HRM is both the art of managing people by recourse to creative and innovative approaches; it is a science as well because of the precision and rigorous application of theory that is required.

As outlined above, the process of defining HRM leads us to two different definitions. The first definition of HRM is that it is the process of managing people

Check Your Progress

1. What do you mean by brand management?
2. Who are the market leaders?
3. Define capacity.
4. What do you mean by financial planning?

in organizations in a structured and thorough manner. This covers the fields of staffing (hiring people), retention of people, pay and perks setting and management, performance management, change management and taking care of exits from the company to round off the activities. This is the traditional definition of HRM which leads some experts to define it as a modern version of the Personnel Management function that was used earlier.

The second definition of HRM encompasses the management of people in organizations from a macro perspective i.e., managing people in the form of a collective relationship between management and employees. This approach focuses on the objectives and outcomes of the HRM function. What this means is that the HR function in contemporary organizations is concerned with the notions of people enabling, people development and a focus on making the "employment relationship" fulfilling for both the management and employees.

These definitions emphasize the difference between Personnel Management as defined in the second paragraph and human resource management as described in the third paragraph. To put it in one sentence, personnel management is essentially "workforce" centered whereas human resource management is "resource" centered. The key difference is HRM in recent times is about fulfilling management objectives of providing and deploying people and a greater emphasis on planning, monitoring and control.

Whatever the definition we use the answer to the question as to "what is HRM?" is that it is all about people in organizations. No wonder that some MNC's (Multinationals) call the HR managers as People Managers, People Enablers and the practice as people management. In the 21st century organizations, the HR manager or the people manager is no longer seen as someone who takes care of the activities described in the traditional way. In fact, most organizations have different departments dealing with Staffing, Payroll, and Retention, etc. Instead, the HR manager is responsible for managing employee expectations vis-à-vis the management objectives and reconciling both to ensure employee fulfillment and realization of management objectives.

5.9 HANDLING UN-SOUGHT CONSEQUENCES OF GROWTH

Growth is generally an important goal for organisations of all sizes and in all industries. Most businesses go about this in one of two ways. The firm increases its size by using resources more efficiently, thereby increasing productivity, or by introducing new products and services that are well received in the marketplace, a strategy referred to as 'natural growth'. Alternatively, the firm may use its resources to expand the market by merging with or by acquiring other firms, by taking up the space of a deceased competitor, or by forming alliances with other firms and

employing synergies to grow both the market and the business – a strategy known as 'forced growth'.

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But regardless of the strategy, all too often the initiative fails to result in sustainable growth of the firm.

The following are the key problems faced by the firms in their growth:

The Managerial Capacity Problem

The limitations on management's ability to achieve sustained growth operates at many levels including: the pool of talent at management's disposal; the rate at which new management resources can be added and integrated; and the speed with which proven managerial experience can be shared. To answer the question why strategies so eagerly and hopefully developed unfortunately often fail in their implementation, we need to start by looking at how firms operate.

The administrative framework of a firm consists of two tiers – the entrepreneurial services that generate new markets and product / service ideas; and the managerial activities that administer the routine processes of the firm and facilitate the profitable execution of new opportunities.

The problem with the introduction of a push for growth is that, while the business may have the capacity to ramp up its production and distribution capabilities, it may not be able to find the extra managerial services, or 'managerial capacity', that is the invariable knock on need from growth.

It's rarely that a firm can evade the effect simply by hiring new managers to shore up its managerial resources. It takes time for a new manager to become familiar with the culture of the place, acquire firm-specific skills and knowledge, and work with other employees long enough to develop trusting relationships. In fact, managerial expertise is often an organisation-specific asset that accumulates over time, and can't necessarily be rushed.

The bottleneck to growth a firm experiences because its managerial resources are insufficient to take advantage of its new product and service opportunities is a well known and studied phenomenon. Indeed, its alternative name, the Penrose Effect, is taken from Edith Penrose who was doing pioneering work on how firms grow as early as the 1950s. Essentially, it states that a firm that grows faster than the abilities of its management is unlikely to succeed.

The Need to Grow

In tough competitive times it's foolish for companies to believe that they can stand still and today hungry competitors operating in a climate of globalised competition stand ready to move into markets previously considered safe from challenge. For many businesses expansion may not be an option – continued viability may necessitate it for the benefits it can bring to keep it competitive.

A convenient excuse for not looking at the reasons why a company cannot grow can be found by attributing failure to external factors such as economic recession and the intensity of competition, studies also show that internal limits on enterprise growth can be just as important. Studies regularly conclude the most prominent internal inhibitor is limitations on the management team's ability to manage further growth.

Managerial Problems of Growth

If a firm lacks sufficient managerial services to implement its entrepreneurial ideas, it will either be unable to grow or else it will grow without adequate managerial talent being applied throughout the enterprise.

The managerial capacity problem arises when, as a result of growth, managerial resources are diverted from their administrative duties and have to deal with additional responsibilities created by the entrepreneurial services.

If a firm lacks sufficient managerial services to implement its entrepreneurial ideas, it will either be unable to grow or else it will grow without adequate managerial talent being applied throughout the enterprise. As we have noted, the solution doesn't lie in simply hiring new managers to cover the gap in managerial resources. Newcomers to an organisation begin on the edge of inclusiveness until they can prove an understanding and acceptance of the group's norms and values. Even the best qualified new managers take time to find acceptance and become full contributors to their firms.

Meanwhile, the effects of the managerial bottleneck can be increased by many other factors that can arise in even the best-managed enterprise. Growth might be dependent upon recruiting the right kind of new employees who may or may not be available at that time. Ironically, the faster a firm grows the less time management has to devote to hiring and supervising new personnel.

Cultural problems can also arise that will affect growth abilities. The more rapidly a firm grows the more likely it is that new people will be required to fill positions in the enlarged business structure. The new-hires usually do not have the same motivation or dedication as longer-serving personnel and therefore require more supervision and mentoring.

Solutions to the Managerial Capacity Problem

There's little return on the effort expended to recognize new market, product, or service opportunities, if a firm does not have the managerial capacity to capitalize on those opportunities.

Firms that want to grow must find ways to mitigate the impact of the managerial capacity problem to create and sustain growth. There are two elements of the managerial capacity problem that must be addressed before a firm can both produce growth and sustain success.

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The first concern is that the entrepreneurial forces within the business will be so frustrated by a lack of managerial capacity that they will wither and cease their attempts to drive growth; the second is that it takes time for new management talent to be sourced and brought up to speed to the point where they become effective.

So growth initiatives must include, from the beginning, recognition of the strain that growth might entail and strategies for dealing with them.

The solution is not a single dramatic masterstroke; it's an armory of initiatives from which a firm can choose those weapons most appropriate to its own situation. These initiatives range from hiring policies to structuring rewards for management, and all should be considered by any company that has rapid growth as a corporate goal. Broadly they can be categorized as internal strategies or external strategies.

Internal Strategies

There are a number of incentives and empowerment practices that can be implemented to elicit discretionary effort from employees and reduce the consequences of fast growth.

Developing A Management Team

Business owners who pursue growth but are reluctant to expand the management team are attempting the impossible. A team of committed managers becomes vital to the growth of the firm. The business owner can stretch themselves only so far before they must attract talented people who will buy into the vision and help grow the firm. And as the team expands, the organisation develops into layers.

How to manage growth of the team and develop the organisation is a critical component of CEO leadership. Two tools that can be used to overcome the managerial capacity problem used in the early expansionary stage are creating a top management team and appointing a board of directors / advisors.

Mission Statements

A mission statement has been shown to provide clear direction to the employees of a business as well as helping experienced employees mentor new-hires. Rapid-growth firms emphasize the use of mission statements to a significantly higher degree than normal and slow-growth firms.

Incentives

There are two basic forms of incentive – financial and non-financial. Both can be valuable in helping rapid-growth firms combat managerial capacity problems.

Most important are the growth related financial incentives, including bonus plans, profit sharing, and stock options. These provide quantifiable stimulation to performance and align the interest of employees with those of the firm itself. Financial incentives can also be very effective in attracting and retaining the kind of high quality employee needed by rapid-growth enterprises.

Less important are the non-financial incentives, including non-monetary awards and other forms of recognition such as educational reimbursements, membership of social organisations and travel. With these it is more difficult to relate the reward to the growth of the business, although some non-financial incentives can be used to support ones of the financial varieties.

Managerial Motivation

The company's existing management must be motivated towards growing the business. This can be done using a combination of company wide commitment to growth and incentives to individual managers.

Internal Communications

Rapid-growth firms have a higher quality of communication with their employees than slow-growth and normal-growth businesses. Communications work quickly and effectively in both directions, to and from the employees of the business; this has the dual effect of ensuring that everyone in the business has the same information and that it is unambiguous and not subject to erroneous interpretation.

Recruit From Within the Business

Many rapid-growth firms have a policy of recruitment from within, and commit themselves to the grooming of lower-level employees as candidates for management positions. There is no doubt this means a newly appointed manager will settle in and become more effective faster than one hired from outside; they're already familiar with the people and the culture of the business.

Maintain High Standards of Recruitment

As the number of employees that a firm needs increases, so it becomes increasingly difficult for it to find the right employees, place them in appropriate positions, and provide adequate supervision. Further, new-hires typically do not have the same ownership incentives as the original founders.

So, although there is always a pressure on rapid-growth firms to speed up their recruiting of new talent, it's important that they maintain high standards during the recruitment and selection process. It will add costs and involve more time, but in the longer-term will minimize the risk of expending valuable resources on people who will not contribute to growth or else will leave the business before there is any return on investment from their hiring / training costs.

External Initiatives

Participating in alliances of one sort or another provides firms with access to their partner's resources and managerial talent, which, in effect, allows firms to outsource a portion of their own managerial capacity requirements

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Alliances With Other Organizations

Managerial capacity can be quickly added through forming an alliance with another organisation. This is one of the most important practices adopted by rapid-growth companies to counteract the problems of managerial capacity.

Partnering with other organisations enables firms to effectively co-opt a portion of their partner's managerial capacity, reducing the need to recruit new managers and incur the costs of training and bringing them up to speed so they can perform their duties.

Management Recruiting

Studies have shown that rapid-growth firms are more likely to seek out management talent with a good depth of experience in their own industry. This gives them advantages in being able to tap into their social and business networks to identify other suitable candidates for positions with the company, and to choose partners for alliances.

Overcoming Growth Limitations

Professor Edith Penrose and the other economists who have followed her into examinations of rapid-growth enterprises are in general agreement that the problem of managerial capacity exists and is a limiting factor on the ability of rapid-growth firms to continue growth and prosper at the same time. Indeed, perhaps the strongest constraint on growth in any business is management resources. The demands of the business quickly outstrip the management's capacity to handle them. Studies conducted over the past three decades have confirmed this effect but have also, in the process, revealed a number of techniques by which a firm can overcome that challenge. These studies confirm that rapid-growth firms differ from normal and slow-growth firms in a number of key areas in regard to the management techniques that they employ to lessen the impact of the managerial capacity problem and enhance firm growth.

The recognition of new market, product, and service opportunities does a firm little good unless it has sufficient managerial services to implement the opportunities.

So even though the implementation of strategies to achieve that are not likely to be entirely friction free - indeed may arouse the deepest suspicion even on the part of the owner when it comes to relinquishing some managerial responsibility and authority - the ability to translate opportunities into firm growth hinges on the ability to provide sufficient managerial resources.

5.10 TURNING RISKS INTO OPPORTUNITIES

Risk is defined as the probability of an event and its consequences. Risk management is the practice of using processes, methods and tools for managing these risks.

Risk management focuses on identifying what could go wrong, evaluating which risks should be dealt with and implementing strategies to deal with those risks. Businesses that have identified the risks will be better prepared and have a more cost-effective way of dealing with them. The main categories of risk to consider are:

- **Strategic**, for example a competitor coming on to the market.
- **Compliance**, for example the introduction of new health and safety legislation.
- **Financial**, for example non-payment by a customer or increased interest charges on a business loan.
- **Operational**, for example the breakdown or theft of key equipment.

These categories are not rigid and some parts of your business may fall into more than one category. The risks attached to data protection, for example, could be considered when reviewing your operations or your business' compliance.

Other risks include:

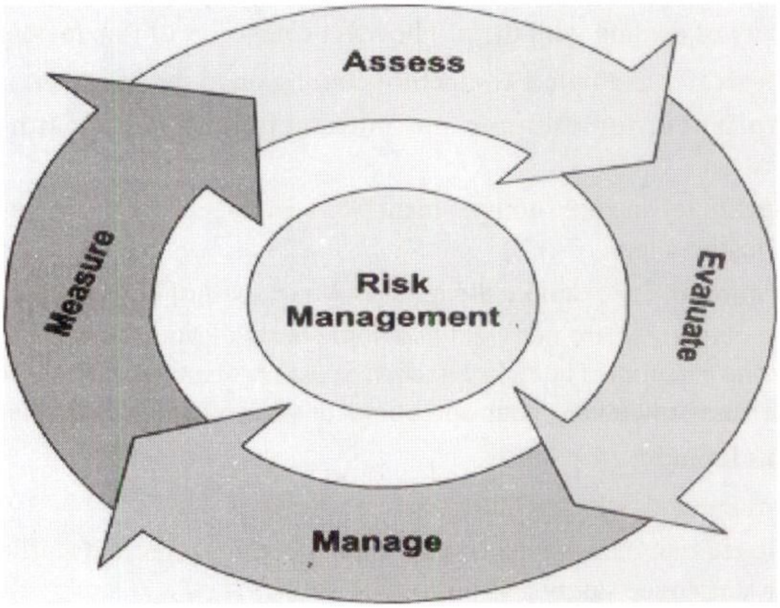
- Environmental risks, including natural disasters.
- Employee risk management, such as maintaining sufficient staff numbers and cover, employee safety and up-to-date skills.
- Political and economic instability in any foreign markets you export goods to health and safety risks.

Ideally in risk management, a risk prioritization process is followed in which those risks that pose the threat of great loss and have great probability of occurrence are dealt with first. Refer to table below:

Impact	**Actions**		
Significant	Considerable Management Required	Must Manage and Monitor Risks	Extensive Management essential
Moderate	Risk are bearable to certain extent	Management effort worthwhile	Management effort required
Minor	Accept Risks	Accept but monitor Risks	Manage and Monitor Risks
	Low	**Medium**	**High**
	Likelihood		

The above chart can be used to strategize in various situations. The two factors that govern the action required are the probability of occurrence and the impact of the risk. For example, a condition where the impact is minor and the probability of occurrence is low, it is better to accept the risk without any interventions. A condition where the likelihood is high and the impact is significant, extensive management is required. This is how a certain priority can be established in dealing with the risk.

Apart from this, typically most of the organizations follow a risk management cycle. Refer diagram below:



According to this cycle there are four steps in the process of risk management. The first step is the assessment of risk, followed by evaluation and management of the same. The last step is measuring the impact.

Risk identification can start at the base or the surface level, in the former case the source of problems is identified. We now have two things to deal with the source and the problem.

Risk Source: The source can be either internal or external to the system. External sources are beyond control whereas internal sources can be controlled to a certain extent. For example, the amount of rainfall, weather over an airport, etc!

Problem: A problem at the surface level could be the threat of accident and casualty at the plant, a fire incident, etc.

When any or both of the above two are known beforehand, certain steps can be taken to deal with the same.

After the risks has been identified then it/they must be assessed on the potential of criticality. Here we arrive upon risk prioritization. In generic terms 'likelihood of occurrence × impact' is equal to risk.

This is followed by development of a risk management plan and implementation of the same. It comprises of the effective security controls and control mechanisms for mitigation of risk.

A more challenging risk to organizational effectiveness is the risk that is present but cannot be identified. For example, a perpetual inefficiency in the production process accumulates over a certain period of time and translates into operational risk.

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Check Your Progress

Fill in the Blanks

5. A ....has been shown to provide clear direction to the employees of a business as well as helping experienced employees mentor new-hires.
6. ... ... focuses on identifying what could go wrong, evaluating which risks should be dealt with and implementing strategies to deal with those risks.
7. The .... problem arises when, as a result of growth, managerial resources are diverted from their administrative duties and have to deal with additional responsibilities created by the entrepreneurial services.
8. ....can also be very effective in attracting and retaining the kind of high quality employee needed by rapid-growth enterprises.

The following steps to be followed for proper managing the risk:

Identify and Measure

As uncertainty in the external environment increases, organizations are under tremendous pressure to effectively manage the risks associated with executing their strategy. Smart companies know that both risk-taking and risk-avoidance go hand-in-hand when it comes to risk management – after all, the better you can avoid downside risks, the more you'll be able to pursue the upside risks. But where do you begin? Good risk management starts with a clear understanding of your strategy, since each of the choices a company makes (e.g., to enter a new market, launch a new product, or form a strategic alliance) comes with a set of possible events that could lead to different outcomes. The key is to understand what events could take place and anticipate their magnitude and probability in advance of execution. This theme, using a combination of thought leaders and case studies, will look at the role of risk mapping, KRIs (Key Risk Indicators), and other tools that can help an organization anticipate its various risks.

Align and Manage

Risk management has been around for decades. Insurance companies and other financial services organizations that are in the business of managing risk have developed an arsenal of risk management tools. Unfortunately, few organizations have mastered the challenge of combining risk management with strategy management and ensuring that the risk-taking and risk-avoiding is part of one integrated management dialogue. In this theme, through a mix of theory and cases regarding both leading practices as well as pitfalls to avoid, we will look at how to integrate risk, strategy, and performance management into one management framework and process. We will also explore how companies are managing – by eliminating, reducing, transferring, or taking advantage – specific risks once they have been identified.

Make Decisions and Take Action

Having a well-designed strategic risk management framework is only as good as the decisions you make and the actions you take – from strategy-setting to operational execution. It's critical to ensure that the organization's governance process is designed to allow managers to spend time thinking about the future, not just looking backward at performance trends and addressing day-to-day issues. Time needs to be spent examining the various courses of action – the specific projects, initiatives, and actions that could help the organization create or protect value. In this final theme we will look at various methods for analyzing risk, hedging techniques, and other approaches that will ensure a balanced portfolio of risk across innovation, growth, and other key strategic initiatives.

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5.11 SUMMARY

- Every company leader needs to plan for both the good times and the bad times. Those who are thriving in the current global economic downturn tend to have not only vision, but a solid growth strategy that takes into account how the company will react when market conditions are less favorable.
- Brand management is associated with consumer product companies whereas product management is associated with software companies.
- To deal with competition companies need to design an intelligence system. Companies need to identify parameters which will help in analyzing the competition. It is then followed by gathering information for which source and methodology have to be finalized.
- Asset management module primarily maintains asset register, which provides information about asset related transactions. Asset Management thus helps in keeping track of fixed assets, handling fixed asset depreciation for fiscal reporting and revaluation of asset.
- Capacity is defined as the ability to achieve, store or produce. For an organization, capacity would be the ability of a given system to produce output within the specific time period. In operations, management capacity is referred as an amount of the input resources available to produce relative output over period of time.
- Organizations have realised the importance of being in tune with the markets and customers. They are also embarking on investing on relationship with the customers for the Relationship Management aspect is becoming very important for the success of the business.
- The bottleneck to growth of a firm experiences because its managerial resources are insufficient to take advantage of its new product and service opportunities is a well known and studied phenomenon.
- Risk management focuses on identifying what could go wrong, evaluating which risks should be dealt with and implementing strategies to deal with those risks. Businesses that have identified the risks will be better prepared and have a more cost-effective way of dealing with them.

5.12 KEY TERMS

- **Capacity:** Capacity is defined as the ability to achieve, store or produce. For an organization, capacity would be the ability of a given system to produce output within the specific time period.
- **Financial ratio:** A financial ratio is an expression of the relationship between two items selected from the income statement or the balance sheet.

- **Current ratio:** The current ratio (current assets divided by current debts) is a measure of the cash or near cash position (liquidity) of the firm.
- **Risk:** Risk is defined as the probability of an event and its consequences. Risk management is the practice of using processes, methods and tools for managing these risks.

5.13 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Brand management is all about creating a mind space for the product. It is often done in consumer product companies that have more products and product lines and hence the overall emphasis on the brand image is more.
2. Market Leader is a company with the largest market share (such as Coca Cola). Market leaders need to invest heavily in building sales through increasing market demand for their products, and also need to promote and advertise heavily to stop competitors stealing their share.
3. Capacity is defined as the ability to achieve, store or produce. For an organization, capacity would be the ability of a given system to produce output within the specific time period.
4. Financial Planning is the process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies.
5. mission statement
6. risk management
7. managerial capacity
8. financial incentives

5.14 QUESTIONS AND EXERCISES

Short Answer Questions

1. What do you mean by brand domain?
2. What are the key differences between product and brand management?
3. What are the possible competitive moves?
4. What do you mean by assets management?
5. Define capacity planning.
6. What are the key objectives of financial planning?
7. Define risk.

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Long Answer Questions

1. What are the key strategies to secure product and brand domain?
2. How to secure market and competition domain of your business?
3. Discuss the checklist for securing profitability.
4. Discuss the nature and significance of managing network and relationship.
5. What do you mean by geography and spread domain?
6. How to handle the un-sought consequences of growth?
7. Define risk. How to convert the risk into opportunities for your business?

UNIT 6 SUSTAINING GROWTH

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Structure

6.0 INTRODUCTION

A company achieves sustainable competitive advantage when an attractive number of buyers prefers its products or services over the offerings of competitors and when the basis for this preference is durable. *Four Strategic Approaches*

- **Industry low cost provider:** cost based advantage over rivals.
- Outcompeting rivals based on differentiating features (higher quality, wider selection, added performance, value-added services, more attractive styling, technological superiority, good value).
- Focusing on a narrow market niche and winning a competitive edge by doing a better job than rivals of serving the special needs and tastes of buyers comprising the niche.
- Developing expertise and resource strengths that give the company competitive capabilities that rivals can't easily imitate or trump with capabilities of their own.

In this unit we will study Concept and techniques for sustaining the business growth. The unit also discussed about the strategies of rapid growth and their management.

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6.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Describe efficiency improvement and effectiveness enhancement
- Explain excellence management
- Define continuous innovation
- Explain the meaning of Kaizen and radical innovation
- Describe the rapid growth strategies and their management.

6.2 EFFICIENCY IMPROVEMENT

Efficiency is doing things right. It is input plus process oriented. Given input and the process, certain output is assured. It may not be right always. Efficiency focus does not bother on that aspect. It focuses on neat and planned execution.

Many businesses, particularly small and medium-sized enterprises, continue to face trading difficulties in an uncertain economic environment. The owners and managers need to continuously identify areas where efficiencies can be achieved.

This can be done by measuring and assessing how the business is performing in certain areas, and it is worth "going back to basics" in assessing performance. The process doesn't need to be time-consuming or overly complicated and much of the basic financial information generated by a business in its day-to-day operations will give owners and managers the data they need.

There are several ways of improving efficiency levels. A well-motivated trained workforce will work harder, take pride in their work, increase production speed and also improve the quality of products and services that are being produced. Increasing workplace efficiency is not merely a question of doing more work in less time, it is also a question of focusing, so that you produce quality work with less effort. Varied factors can influence workplace efficiency. These include exterior factors such as the physical work environment, and interior factors such as job satisfaction and how well co-workers get along. Calm, efficient leadership and management stability can also increase workplace efficiency. There is no single correct method for improving efficiency, and a combination of strategies may be needed.

The following are the key steps that should be followed for efficiency improvement:

Step 1

Create a happy workplace. Workers who are happy with their jobs perform better, are more productive and more efficient than workers who are not happy. Workers who are happy with their jobs also spend more time on job-related tasks than those who are unhappy.

Step 2

Allow flexible work hours where possible. Some workers are more efficient and productive early in the morning or late at night. By allowing your workers flexibility in their work hours, they can work when they are most efficient.

Step 3

Map your workplace processes. Determine if you have any redundant or unnecessary processes that are affecting your workplace efficiency. Establish a benchmark for different tasks and determine what affects efficiency for those tasks. Eliminate or change inefficient processes.

Step 4

Keep up with new technology. Pay attention to any new technology that can improve your business practices and help you become more efficient. For example, according to Bloomberg Businessweek, businesses have begun using the iPad as a way to increase computing flexibility, portability and efficiency.

Step 5

Encourage your employees to work as a team to better communication and increase efficiency. Take your employees on a team-building adventure or an away day. Encourage teams to work together and provide team members with the opportunity to participate in group projects.

Inventory Management

In any business or organization, all functions are interlinked and connected to each other and are often overlapping. Some key aspects like supply chain management, logistics and inventory form the backbone of the business delivery function. Therefore these functions are extremely important to marketing managers as well as finance controllers.

Inventory management is a very important function that determines the health of the supply chain as well as the impacts the financial health of the balance sheet. Every organization constantly strives to maintain optimum inventory to be able to meet its requirements and avoid over or under inventory that can impact the financial figures.

Inventory is always dynamic. Inventory management requires constant and careful evaluation of external and internal factors and control through planning and review. Most of the organizations have a separate department or job function called inventory planners who continuously monitor, control and review inventory and interface with production, procurement and finance departments.

Inventory management and supply chain management are the backbone of any business operations. With the development of technology and availability of process driven software applications, inventory management has undergone revolutionary changes. In the last decade or so we have seen adaptation of enhanced customer service concept on the part of the manufacturers agreeing to manage and

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hold inventories at their customers end and thereby effect Just-in-Time deliveries. Though this concept is the same in essence different industries have named the models differently. Manufacturing companies like computer manufacturing or mobile phone manufacturers call the model by name (VMI) Vendor Managed Industry while Automobile industry uses the term JIT - Just-in-Time where as apparel industry calls such a model by name (ECR) Efficient Consumer Response. The basic underlying model of inventory management remains the same.

Let us take the example of DELL, which has manufacturing facilities all over the world. They follow a concept of Build to Order where in the manufacturing or assembly of laptop is done only when the customer places a firm order on the web and confirms payment. DELL buys parts and accessories from various vendors. DELL has taken the initiative to work with third party service providers to set up warehouses adjacent to their plants and manage the inventories on behalf of DELL's suppliers. The 3PL - third party service provider receives the consignments and holds inventory of parts on behalf of DELL's suppliers. The 3PL warehouse houses inventories of all of DELL's suppliers, which might number to more than two hundred suppliers. When DELL receives a confirmed order for a Laptop, the system generates a Bill of material, which is downloaded at the 3PL, processed and materials are arranged in the cage as per assembly process and delivered to the manufacturing floor directly. At this point of transfer, the recognition of sale happens from the Vendor to DELL. Until then the supplier himself at his expense holds the inventory.

Let us look at the benefits of this model for both DELL as well as its suppliers:

1. With VMI model, DELL has reduced its inbound supply chain and thereby gets to reduce its logistics and inventory management costs considerably.
2. DELL gets to postpone owning inventory until at the time of actual consumption. Thereby with no inventories DELL has no need for working capital to be invested into holding inventories.
3. DELL does not have to set up inventory operations and employ teams for operations as well as management of inventory functions.

Supplier Benefits

Supplier gets to establish better relationship and collaboration with DELL with long-term business prospect.

1. By agreeing to hold inventories and effect JIT supplies at the door to DELL, supplier will be in a better position to bargain and get more business from DELL.
2. With VMI model, supplier gets an opportunity to engage in better value proposition with his customer DELL.
3. Supplier gets confirmed forecast for the entire year with commitments from DELL for the quantity off take.
4. VMI managed is managed by 3PL and supplier does not have to engage himself in having to set up and manage inventory operations at DELL's premise.

5. 3PL Managed VMI holds an inventory of all suppliers thereby charges each supplier on per pallet basis or per sq. ft basis. Supplier thereby gets to pay on transaction basis without having to make fixed costs of inventory operations.

Today most of the Multinational companies have successfully managed to get their suppliers and 3PL service providers to set up VMI throughout their plants all over the world and this model has become the order of the day.

Supply Chain Management

If you go to a Supermarket and pick up a few items of the shelf from electronics and white goods or even clothes and look at the labels, chances are that you will find them having been manufactured in China or Mexico. The coffee pods you buy to use for your everyday use comes from Africa. Computers have been shipped out of South American Factories and Soft furnishings on the shelves are from India and Hong Kong.

Global markets are expanding beyond borders and re-defining the way demand and supplies are managed. Global companies are driven by markets across continents. In order to keep the cost of manufacturing down, they are forced to keep looking to set up production centers where cost of raw materials and labor is cheap. Sourcing of raw materials and vendors to supply the right quality, quantity and at right price calls for dynamic procurement strategy spanning across countries.

With the above scenario you find companies procuring materials globally from various vendors to supply raw materials to their factories situated in different continents. The finished goods out of these different factory locations then pass through different chains of distribution network involving warehouses, exports to different countries or local markets, distributors, retailers and finally to the end customer.

In simple language, managing all of the above activities in tandem to manage demand and supply on a global scale is Supply Chain Management. As per definition SCM is the management of a network of all business processes and activities involving procurement of raw materials, manufacturing and distribution management of Finished Goods. SCM is also called the art of management of providing the Right Product, At the Right Time, Right Place and at the Right Cost to the Customer.

Why does Supply Chain Management strategy important for an Organization?

Supply Chain Strategies are the critical backbone to Business Organizations today. Effective Market coverage, Availability of Products at locations which hold the key to revenue recognition depends upon the effectiveness of Supply Chain Strategy rolled out. Very simply stated, when a product is introduced in the market and advertised, the entire market in the country and all the sales counters need to have the product where the customer is able to buy and take delivery. Any glitch in product not being available at the right time can result in drop in customer interest and demand which can be disastrous. Transportation network design and management assume importance to support sales and marketing strategy.

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Inventory control and inventory visibility are the two very critical elements in any operations. These are the cost drivers and directly impact the bottom lines in the balance sheet. Inventory means value and is an asset of the company. Every business has a standard for inventory turnaround that is optimum for the business. Inventory turnaround refers to the number of times the inventory is sold and replaced in a period of twelve months. The health of the inventory turn relates to the health of business.

In a global scenario, the finished goods inventory is held at many locations and distribution centers, managed by third parties. A lot of inventory would also be in the pipeline in transportation, besides the inventory with distributors and retail stocking points. Since any loss of inventory anywhere in the supply chain would result in loss of value, effective control of inventory and visibility of inventory gains importance as a key factor of Supply Chain Management function.

Project Management

Project Management is the art of managing all the aspects of a project from inception to closure using a scientific and structured methodology. The term project may be used to define any endeavor that is temporary in nature and with a beginning or an end. The project must create something unique whether it is a product, service or result and must be progressively elaborated. As the definition implies, not every task can be considered a project. It would be worthwhile to keep this definition in mind when categorizing projects and studying their role in the success of the organization. With the above definition of the project, one gets a clear idea on what a project is.

Program Management is defined as a department that centralizes the management of projects. What this means is that the PMO or the Project Management Office is a repository of all the projects that are being executed in an organization. Programme Management Serves the CIO (Chief Information Officer) by providing him or her with regular status updates regarding the progress of all the projects in the company.

The PMO's role is to ensure that the projects are financially viable and to raise an alert whenever there is a possibility or occurrence of a cost overrun. The PMO also keeps tab on the billing and other details that are concerned with the project. Thus, the PMO's function is to oversee the projects coming under its domain and act as a kind of monitoring agency for them. In the current scenario, there is a need for visionary leadership by the CIO's in addition to the technical leadership.

Technical leadership is the ability to spot trends in the technical space and leverage them for the success of the project. This involves choosing the right technology and being able to stay ahead of the curve with respect to new technologies. On the other hand, programme visionary leadership is needed to control costs and effectively manage productivity increases and tighter integration of processes. This is relevant in the context of the ongoing economic crisis where the accent is on cutting costs and improving the bottom line.

The role of a project manager is akin to that of a conductor in a symphony. Individually each of the artists know what has to be done for his or her role. But, there needs to be a person who has the overall "big picture" or the collective vision to make the performance a success. Similarly, the project manager drives the entire project team in pursuit of common goals.

The Project Manager's role is to ensure that the overall objectives of the project are achieved with the participation of each individual member. The project manager is like the Prima Donna and his or her acumen depends on how well he or she can leverage the strengths of the individual members while minimizing the impact of their weaknesses. Programme managers take the same view but at a much higher level. Their job is on the overall bottom line for the division or the company and they drive the individual project managers. This is similar to that of a pyramid where the CIO or the program manager sits on the apex and the project manager at the next level, project leads further down and so on.

Quality Management

"Quality management" ensures superior quality products and services. Quality of a product can be measured in terms of performance, reliability and durability. Quality is a crucial parameter which differentiates an organization from its competitors. Quality management tools ensure changes in the systems and processes which eventually result in superior quality products and services. Quality management methods such as Total Quality Management or Six Sigma have a common goal - to deliver a high quality product. Quality management is essential to create superior quality products which not only meet but also exceed customer satisfaction. Customers need to be satisfied with your brand. Business marketers are successful only when they emphasize on quality rather than quantity. Quality products ensure that you survive the cut throat competition with a smile.

Quality management is essential for customer satisfaction which eventually leads to customer loyalty. How do you think businesses run? Do businesses thrive only on new customers? It is important for every business to have some loyal customers. You need to have some customers who would come back to your organization no matter what price you are charging.

Would you buy a Nokia mobile again, if the previous handset was defective? The answer is NO.

Customers would return to your organization only if they are satisfied with your products and services. Make sure the end-user is happy with your product. Remember, a customer would be happy and satisfied only when your product meets his expectations and fulfills his needs. Understand what the customer expects from you? Find out what actually his need is? Collect relevant data which would give you more insight into customer's needs and demands. Customer feedbacks should be collected on a regular basis and carefully monitored. Quality management ensures high quality products and services by eliminating defects and incorporating

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continuous changes and improvements in the system. High quality products in turn lead to loyal and satisfied customers who bring ten new customers along with them. Do not forget that you might save some money by ignoring quality management processes but ultimately lose out on your major customers, thus incurring huge losses. Quality management ensures that you deliver products as per promises made to the customers through various modes of promotions. Quality management tools help an organization to design and create a product which the customer actually wants and desires.

Quality Management ensures increased revenues and higher productivity for the organization. Remember, if an organization is earning, employees are also earning. Employees are frustrated only when their salaries or other payments are not released on time. Yes, money is a strong motivating factor. Would you feel like working, if your organization does not give you salary on time? Ask yourself. Salaries are released on time only when there is free cash flow. Implementing Quality management tools ensure high customer loyalty, thus better business, increased cash flow, satisfied employees, healthy workplace and so on. Quality management processes make the organization a better place to work.

Remove unnecessary processes which merely waste employee's time and do not contribute much to the organization's productivity. Quality management enables employees to deliver more work in less time.

Quality management helps organizations to reduce waste and inventory. It enables employees to work closely with suppliers and incorporate "Just-in-Time" Philosophy.

Quality management ensures close coordination between employees of an organization. It inculcates a strong feeling of team work in the employees.

6.3 EFFECTIVENESS ENHANCEMENT

Effectiveness is doing "right things". You know efficiency is doing "things right". Effectiveness is outcome oriented. When outcome focus is there, input and process get backwardly re-engineered to be the best. Hence, effectiveness focus is superior to efficiency focus.

Organizational effectiveness is the concept of how effective an organization is in achieving the outcomes the organization intends to produce. The idea of organizational effectiveness is especially important for non-profit organizations as most people who donate money to non-profit organizations and charities are interested in knowing whether the organization is effective in accomplishing its goals. An organization's effectiveness is also dependent on its communicative competence and ethics. The relationship between these three is simultaneous. Ethics is a foundation found within organizational effectiveness. An organization must exemplify respect, honesty, integrity and equity to allow communicative competence with the participating members. Along with ethics and communicative competence, members in that

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particular group can finally achieve their intended goals. Foundations and other sources of grants and other types of funds are interested in organizational effectiveness of those people who seek funds from the foundations. Foundations always have more requests for funds or funding proposals and treat funding as an investment using the same care as a venture capitalist would in picking a company in which to invest. Organizational effectiveness is an abstract concept and is basically impossible to measure. Instead of measuring organizational effectiveness, the organization determines proxy measures which will be used to represent effectiveness. Proxy measures used may include such things as number of people served, types and sizes of population segments served, and the demand within those segments for the services the organization supplies. For instance, a non-profit organization which supplies meals to house bound people may collect statistics such as the number of meals cooked and served, the number of volunteers delivering meals, the turnover and retention rates of volunteers, the demographics of the people served, the turnover and retention of consumers, the number of requests for meals turned down due to lack of capacity (amount of food, capacity of meal preparation facilities, and number of delivery volunteers), and amount of wastage. Since the organization has its goal the preparation of meals and the delivery of those meals to house bound people, it measures its organizational effectiveness by trying to determine what actual activities the people in the organization do in order to generate the outcomes the organization wants to create. Activities such as fundraising or volunteer training are important because they provide the support needed for the organization to deliver its services but they are not the outcomes per se. These other activities are overhead activities which assist the organization in achieving its desired outcomes. The term Organizational Effectiveness is often used interchangeably with Organization Development, especially when used as the name of a department or a part of the Human Resources function within an organization.

To be effective and achieve its goals, an organization must successfully respond to environmental factors. How can the effectiveness of an organization be measured? Various models of determining organizational effectiveness exist because organizations face different environments, they produce different products, their organizational members are made up of different kinds of people, and the organizations are at different stages of development. Each model is most useful to an organization having a particular combination of these environmental and organizational attributes. Two different underlying dimensions may be considered to develop models of organizational effectiveness. The first is the organization's internal versus external focus. The second dimension is the organization's emphasis on flexibility versus control. Flexibility allows faster change, whereas control allows a firmer grasp on current operations. When these two dimensions are drawn at right angles to each other, the first four models of organizational effectiveness can be plotted. They are the rational goal, open system, internal process, and human relations models. According to the rational goal model of effectiveness, an organization is effective to the extent that it accomplishes its stated goals. For example, the formal goals of the Toronto Blue Jays are to win their division, the American League pennant,

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and the World Series. With an open system model an organization is effective to the degree that it acquires inputs from its environment and has outputs accepted by its environment. The University of Alberta follows this model when it is concerned about the quality and number of students applying for admission and what jobs they receive on graduation. The internal process model focuses on the effectiveness of the internal transformation process. When Hamilton's Stelco Inc. examines its steel-making methods to determine price and quality competitiveness, it is focusing on its internal processes. The human relations model focuses on the development of the organization's personnel. Marlin Travel sends its agents on familiarization trips to expand their knowledge of specific hotels, cruises, and destinations. The competing values model requires that an organization scrutinize the balance among the above four effectiveness models. In this model there are three sets of competing values. The first is the tension between internal versus external focus. The more the organization focuses on one, the less it can concentrate on the other. For example, Apple Computer has focused externally on its customers and making computers that are intuitive and easy to use. The computer chip maker Intel has had a more internal focus on how to make faster and more powerful central processing units at a low price. The second set of values in competition is flexibility versus control. Flexibility allows quick response to changing conditions and values innovation.

Enhancing business effectiveness through the use of the competency model

In the last fifteen years the implementation of the competency model to support human resources strategies has extended worldwide. The competency model has been implemented in different types of businesses in order to improve organizational effectiveness as well as individual job performance. According to Denver, the competency model has spread as a response to the need of ensuring that employees have the necessary skills to support the organization's performance in the marketplace. The purpose of this article is to present an overview of how the competency model enhances business effectiveness through its implementation in human resources management.

The competency model aims to contribute to the development of skills that enhance job performance and therefore, improve organizational results. Even though there are few empirical studies showing the link between competencies and performance, experience-based investigations back the effectiveness of the model in improving the outcomes of all human resources processes. As Chung claims, when the competency model is used across human resources functions, organizations are better able to increase their ROI.

The benefits of using the competency model are widely known. The competency model connects the business objectives and strategies with employee performance. In addition, it allows organizations developing a common vocabulary to discuss performance. As a result, employees have a better understanding of where to direct their development efforts. In addition, the competency model has a high level of

customization in terms of the style used to develop and describe the competencies. In this sense, the competency model is highly sensitive to the context when considering "organizational culture, life stage, market, customers, employee relations, presence of a union, and strengths and weaknesses of its management."

Besides all the aforementioned benefits of the competency model, Markus et. al. highlight the specific advantages of using the model in recruitment and selection; training and development; performance management; and communication. In their view, the model improves recruitment and selection practices because it focuses on the required competencies to fill a specific position. Grigoryev has expressed a similar view. He argues that the competency model is a solution to increase success in new hire decisions since it uses a scientific approach, instead of the chemistry of hiring that has been used traditionally. The behavioral based interview is the most frequently used method to assess competencies. As Campion et. al. point out, this is an in-depth interview process that gathers information about past situations, tasks, actions, and results, in order to predict future behavior.

The competency model enhances the business effectiveness when used for recruiting and selection because it increases the job fit, which in turn, reduces the employee turnover and the costs associated to it. Grigoryev has drawn the attention on the hard and soft costs that a company assumes because of a bad hire. Hard costs are calculated at nearly of 50-200% of the first year salary according to the level of the position, whereas soft costs include the loss of credibility in management's decision-making and morale problems.

The incorporation of the competency model into on-boarding plans gives the new contributor clear information regarding what is expected from the position, and set the basis for fair and objective performance reviews. Also, the competency model is useful to target training needs and prepare the workforce to assume their current and jobs' demands. In this sense, the competency model serves as a roadmap when designing training programmes and succession plans.

The third area where the competency model boosts business effectiveness is performance management. As mentioned before, the competency model sets the standards to evaluate employees over known criteria for both, managers and workers. To this extent, the model increases fairness in the performance appraisal process.

6.4 EXCELLENCE MANAGEMENT

Excellence is effectiveness achieved first time and every-time, ahead of others and leading others. Excellence is perfection beyond comparison and standing head and shoulder above the rest. It is an expression of strongest commitment for quality, growth, consumer satisfaction and all that.

Growing the business - and sustaining that growth - has always been important to business leaders. After a couple of years tightening their belts and driving cost out

of the system, leaders are again focusing more on growth. Achieving sustainable growth starts with good business strategies.

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But, perhaps more important - and certainly more difficult - is to ensure people and organization capabilities that support the execution of these strategies and sustain the momentum. Following are the ways leaders can build capabilities to sustain growth in their business.

- **Ensure human capability for business growth:** When a business is growing rapidly, jobs are evolving and expanding quickly in terms of size and complexity. If managers are stretched to maximum capability, it may be difficult for them to grow their part of the business. When considering job candidates, consider whether the person could manage a business 20-40% larger than its current size within a desired timeframe. You may need to "overhire" when filling hi-growth roles. Identify people earlier in their career who have potential to manage larger chunks of the business. Give them challenging assignments with feedback. This builds a pool of managers who will grow your business. If your managers have spent their careers in a low growth or regulated environment, you may lack the potential your business needs.
- **Build a growth-oriented culture:** Employees take on a mindset for growing the business when they can see what it will look like when executed. Sometimes the word "growth" can be confusing. Is your intent to grow sales volume? Acquire new businesses? What about total margin growth? To create a growth-oriented culture, everyone must understand what "growth" means. However, one-way communications are seldom enough. Find creative ways to help people understand and desire a future vision of growth. For example, over the past decade, we've created a number of learning board games used by our clients to build knowledge of business strategies and growth priorities. These are a fun and also effective way to build shared understanding and a culture that enables growth.
- **Help managers cope with more complex decisions:** Achieving sustainable growth is more difficult than driving growth in sales volumes or market share. But these approaches to growth a deeply ingrained and often come with bad habits like discounting to drive sales volume and "buy" market share. To execute a strategy of sustainable growth, managers need better information about how profits are determined -- and which customers or products are profitable. This also requires more complex decision-making. Don't expect sustainable growth without a change in behavior and ways of thinking.
- **Use business measures more effectively:** The use of measurement to drive strategy execution in Asia is complex. Employees are often uncomfortable with the explicit feedback such measures provide. Also, the tendency to place blame can create unproductive behavior. Introduce the use of business measurement

Check Your Progress

1. Define project management.
2. What do you mean by quality management?
3. What is organizational effectiveness?

slowly and begin by educating managers about how to use it to drive strategy execution. We encourage our clients to implement strategic measures over a multi-year timeframe. Linking the measures to rewards too soon will surely derail the effort.

- **Avoid boom-splat growth cycles:** Too often, companies downsize and then set stretch growth targets. Next they rush to fill positions only to discover their growth is slowed by inadequate skills. Achieving sustainable growth requires you to learn from leading indicators. For example, if your current orders suggest that you have too many sales people, determine root causes and address these before simply reducing headcount. Volunteer separations and cross-the-board reductions can reduce growth capability by taking out strong performers.

Why Management Excellence?

A decade or two ago, a commitment to efficiency could move a company into a leadership position in its market. Today, operational excellence has become a business imperative and most companies have driven excess cost out of their operations, sped up their business processes, and optimized the quality of their products and services. If operational excellence no longer defines the winners, how will tomorrow's leaders get ahead? Like the paper company that moves to a single system for financial and sustainability reporting or the car manufacturer that gains insight into dealer relationships, they will derive strategic advantage from managing relationships rather than from managing processes. They will embrace a new imperative that promises to alter the competitive landscape: Management Excellence. Management Excellence is the art of reconciling all stakeholder needs, from the outside-in as well as from the inside-out. To deliver it, companies need a process framework that accounts for all of its components, as well as a performance management solution that encompasses the entire enterprise.

The Three Pillars of Management Excellence

Operationally excellent companies are built on three pillars: cost, quality and speed. Companies that stand apart from the crowd by adopting Management Excellence share three additional defining qualities: They are smart, agile and aligned.

Smart

Internal and external data abounds in every organization. The question is how to get the most out of it. Successful companies today are able to leverage existing data derived from both internal and external sources. With better insight, these companies can move faster than the competition and gain a competitive edge. Smart companies match the right technology with the best methodologies and processes to turn an increasing amount of data into meaningful information that supports decision- making processes across the organization.

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Agile

Being smart is only valuable, if it leads to action. The organizations most likely to succeed are ones that can adapt to changing circumstances: Global competition and adjacent markets may bring new entrants, or new technology developments may enable new business models, and the company needs to change course. Agile organizations need less time to understand how changes in the market affect their own operations and success. Whether they are pioneering or following in a market, they are able to identify alternative actions more easily and may even take an active role in driving change into a market.

Aligned

In order to innovate and succeed, organizations throughout the value chain need to collaborate closely. Aligned companies evolve from a command-and-control approach to a collaborative model that incorporates contributions from all stakeholders and shares information through integrated systems and processes.

6.5 CONTINUOUS INNOVATION

Continuous innovation or improvement is a type of business philosophy that requires a constantly cycling process of review, adaptation, and improvement in all areas of practice. Proponents believe that continuous improvement allows a business or institution to stay abreast of changes and adapt along with both the business market and societal changes. Continuous improvement tools are systems, methods, or guidelines that create or help maintain the ongoing process of improvement.

Just as a farmer waters and tills the field until the harvest, employers operating under a continuous improvement philosophy believe that constant maintenance is the key to optimizing growth and performance. In order to create an atmosphere where evolution is both possible and not hugely disruptive to daily work, it is important to create a system of continuous improvement tools that build the ability to change into the fabric of the workplace. Continuous improvement tools may be the strategies that allow for adaptation, or may also be the integrated material products that make daily work more effective, safer, and better performing.

One of the most basic continuous improvement tools is the creation of a quality cycle. This is a chain of responsibility and command within a company that ensures that the process of improvement is a daily duty. A simplified quality cycle might begin with employee or customer feedback, which is then reviewed and broken down into practical solutions by an analysis group, leading to the training of workers and implementation of the solution. Following implementation, the solution is then open to review and feedback from employees and customers, which then starts the whole cycle over again.

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Continuous improvement tools tend to focus on several major areas, such as improving products, improving the workplace, or improving the experience or satisfaction of the customer. Improving products may be done by increasing production efficiently or by increasing quality through research and innovation. Improving the workplace focuses on the employee experience and takes into account issues like interdepartmental communication, wages, and benefits. Customer service improvements may rely heavily on feedback from customers and proper employee training. One of the most useful features of continuous improvement theories is that when all of these areas are managed through an ongoing cyclical process, they each can gain the ability to positively influence the others.

Some people may refer to the actual solutions implemented as continuous improvement tools. These can include basic things that improve safety or efficiency, such as color-coded safety tape, or improved lighting fixtures. It may also include system-wide changes, such as improved software, or an alteration of factory floor layout to improve efficiency. Other tools may include training manuals and strategy guides that describe the various methods and principles of continuous improvement philosophy, such as the Japanese-inspired *kaizen* method.

6.5.1 Kaizen

"Kaizen" refers to a Japanese word which means "improvement" or "change for the better". Kaizen is defined as a continuous effort by each and every employee (from the CEO to field staff) to ensure the improvement of all processes and systems of a particular organization. Work for a Japanese company and you would soon realize how much importance they give to the process of Kaizen. The process of Kaizen helps Japanese companies to outshine all other competitors by adhering to certain set policies and rules to eliminate defects and ensure long-term superior quality and eventually customer satisfaction.

Kaizen works on the following basic principle.

"*Change is for good*".

Kaizen means "continuous improvement of processes and functions of an organization through change". In a layman's language, Kaizen brings continuous small improvements in the overall processes and eventually aims towards organization's success. Japanese feel that many small continuous changes in the systems and policies bring effective results than few major changes.

Kaizen process aims at continuous improvement of processes not only in manufacturing sector but all other departments as well. Implementing Kaizen tools is not the responsibility of a single individual but involves every member who is directly associated with the organization. Every individual, irrespective of his/her designation or level in the hierarchy needs to contribute by incorporating small improvements and changes in the system.

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Following are the main elements of Six Sigma:

1. Teamwork
2. Personal Discipline
3. Improved Morale
4. Quality Circles
5. Suggestions for Improvement

Five S of Kaizen

"Five S" of Kaizen is a systematic approach which leads to foolproof systems, standard policies, rules and regulations to give rise to a healthy work culture at the organization. You would hardly find an individual representing a Japanese company unhappy or dissatisfied. Japanese employees never speak ill about their organization. Yes, the process of Kaizen plays an important role in employee satisfaction and customer satisfaction through small continuous changes and eliminating defects. Kaizen tools give rise to a well organized workplace which results in better productivity and yield better results. It also leads to employees who strongly feel attached towards the organization.

Let us understand the five S in Detail:

1. **SEIRI:** SEIRI Stands for Sort Out. According to Seiri, employees should sort out and organize things well. Label the items as "Necessary", "Critical", "Most Important", "Not needed now", "Useless and so on. Throw what all is useless. Keep aside what all is not needed at the moment. Items which are critical and most important should be kept at a safe place.
2. **SEITION:** Seition means to organize. Research says that employees waste half of their precious time searching for items and important documents. Every item should have its own space and must be kept at its place only.
3. **SEISO:** The word "SEISO" means shine the workplace. The workplace ought to be kept clean. De-clutter your workstation. Necessary documents should be kept in proper folders and files. Use cabinets and drawers to store your items.
4. **SEIKETSU:** SEIKETSU refers to Standardization. Every organization needs to have certain standard rules and set policies to ensure superior quality.
5. **SHITSUKE or Self Discipline:** Employees need to respect organization's policies and adhere to rules and regulations. Self discipline is essential. Do not attend office in casuals. Follow work procedures and do not forget to carry your identity cards to work. It gives you a sense of pride and respect for the organization.

Kaizen focuses on continuous small improvements and thus gives immediate results.

6.5.2 Radical Innovation

Long-term corporate success linked to the ability to innovate. Although corporate investment in improvements to existing products and processes does bring growth,

it is new game changing breakthroughs that will launch company into new markets, enable rapid growth, and create high return on investment.

Radical innovation, concerned with exploration of new technology, is fundamentally different from incremental innovation that is concerned with exploitation of existing technology. "Radical innovation is a product, process, or service with either unprecedented performance features or familiar features that offer potential for significant improvements in performance and cost." It creates such a dramatic change in processes, products, or services that they transform existing markets or industries, or create new ones.

Incremental vs. Radical Innovation

It is difficult to assess who pioneered the Incremental-Radical dichotomy, partly because the concept was used by many authors, often with a different terminology but expressing the same meaning. Abernathy differentiated incremental from radical innovation already in 1978 while Porter in 1986 illustrated a similar concept called continuous and discontinuous technological changes. We also had authors defining Incremental vs. Breakthrough innovations (Tushman and Anderson) and Conservative vs. Radical innovations (Abernathy and Clark).

There are two dimensions that we can use to separate an incremental from a radical innovation:

1. The first is an internal dimension, based on the knowledge and resources involved. An incremental innovation will build upon existing knowledge and resources within a certain company, meaning it will be *competence-enhancing*. A radical innovation, on the other hand, will require completely new knowledge and/or resources and will be, therefore, *competence-destroying*.
2. The second dimension, the external one, differentiates the innovation based on the technological changes and on the impact upon the market competitiveness. An incremental innovation will involve modest technological changes and the existing products on the market will remain competitive. A radical innovation will instead involve large technological advancements, rendering the existing products non-competitive and obsolete.

Under this framework it is clear that incumbents will be in a better position, if the innovation is incremental since they can use existing knowledge and resources to leverage the whole process. New entrants, on the contrary, will have a large advantage if the innovation is radical because they will not need to change their knowledge background.

Furthermore incumbents might have a hard time facing radical innovation both because they operate under a "managerial mindset" constraint and because strategically they have less of an incentive to invest in the innovation if it will cannibalize their existing products. Kodak illustrates this quite well. The company dominated the photography market over many years, and throughout this extended period all the incremental innovations solidified its leadership. As soon as the market

experienced a radical innovation, the entrance of the digital technology, Kodak struggled to defend its turf against the new entrants. The new technology required different knowledge, resources and mindsets.

Overall we can say that the Incremental-Radical dichotomy helped to explain some innovation patterns, and there was favorable evidence for the model within most mature industries. Over the last decades, however, the model lost some reliability as the pace of change accelerated in most sectors. There were cases where new entrants managed to displace incumbents with incremental innovations and other cases where incumbents kept their leadership exploiting a radical innovation. Consider the computer industry for instance, IBM was able to maintain its dominant position when there was a shift from vacuum tubes to integrated circuits, a radical innovation.

6.6 HARNESSING DIVERSITY

Diversity and inclusivity in organizations have to be practiced instead of being preached. This is because they are concepts that lend credence to value based management and management that is humanistic in nature. Many organizations claim to have diversity programmes only to have a few women in positions of power or differently abled employees just for the sake of satisfying the principle of diversity in the letter of the law rather than the spirit of the law. This is the case with many top-notch companies where regressive attitudes exist to prevent women and other minorities from being significant. However, this is neither the ideal situation nor even the acceptable situation, as management has to be driven by values instead of being driven by profit alone. Hence, there is a need to practice value-based management and incorporate diversity as a guiding principle for recruitment and promotions.

Of course, we are not making the case for an affirmative action kind of scenario where disadvantaged groups are recruited and promoted irrespective of their abilities. Rather the point that is being made here is that there should not be implicit and explicit barriers to women and differently abled employees reaching senior positions.

The prevailing attitudes must change and leadership must set an example to the rest of the organization to follow when formulating and actualizing diversity management policies and procedures. In this scenario, women and differently abled people as well as disadvantaged groups are treated equally with the other employees and without showing them undue favours, barriers are not placed in their path. This should be the goal of diversity management, if value based management is adopted as the guiding principle for organizations.

The point here is that the ongoing economic crisis has shown how lack of ethics and normative principles can wreak havoc with the corporate system. Hence, the only way out is for corporate leaders to practice value based management and this can be done only if the senior leadership walks the talk instead of just talking the talk. Moreover, a culture of tolerance and inclusivity has to be built into the organizational

DNA since senior management alone cannot change the system on their own. What this means is that middle management and even the employees from the ground up have to be taught to respect diversity and welcome inclusivity.

There are many companies including Infosys where the senior management is committed to diversity and inclusivity but the situation in the shop floor is something different altogether. Indeed, there are many instances of employees showing scant respect for diversity and be exclusive in their dealings with women. This presents problems for the companies concerned, as not only does this attitude vitiate the organizational culture but is also detrimental for its reputation and adherence to corporate governance principles. As mentioned earlier, if there is one lesson from the recent events, it is that one can fool people for some time but not all the time. Hence, value based management that promotes diversity and inclusivity as a business principle should be the goal of corporate leaders.

Why is Management of Diversity Important ?

When an organization has people of different ethnicities and a greater proportion of women than the industry average, naturally the question arises as to how to reconcile the differences between these employees without causing too much friction in everyday interactions. Managing diversity is important as otherwise the performance of the organization takes a hit and worse, there can be possible lawsuits and legal tangles from disaffected employees who feel aggrieved because of instances of discrimination and harassment based on their ethnicity or gender.

Issues in Managing Diversity

One of the central issues in managing diversity is to do with the majority and the minority perspective. Usually, it is the case in organizations that there is a predominant majority of a particular race or ethnicity and various others in minority groups. And considering that the most pressing issue in managing diversity arises out of the treatment of women, we get a sense of the issues of race and gender as the primary drivers in managing diversity. In recent times, these issues have come to the forefront of the debate because of greater awareness among the minority groups about their rights as well as stricter enforcement of laws and regulations that govern workplace behavior.

Hence, it is in the interest of the management of any firm to sensitize their workforce towards race and gender issues and ensure that the workplace is free of discrimination against minority groups as well as women.

Gender Sensitization

We have devoted a separate section on gender sensitization because when compared to other issues in managing diversity, this is the most pressing issue because of the preponderance of women in the workforce as well as recent trends that point to the emergence of this single issue as the dominant issue that is taking the mind space

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of managers. The worrying aspect about this issue is that despite policies and rules governing gender specific issues in most organizations, there is little evidence to show that they are being followed. Hence, what is needed is a mindset to change rather than more policies and this can only be done, if the workforce is sensitized to the needs of women.

Conclusion

Though the situation in Corporate India or India Inc. has not yet reached the stage where lawsuits are routinely brought against management for discriminatory practices, nonetheless, the trend in recent years is towards a more vocal disapproval of such practices from industry leaders and management consultants who repeatedly emphasize the importance of a non-discriminatory workplace. Hence, the onus is on the management, senior and middle, to ensure that they follow the norms that is required of them. In our opinion, the middle management and the managers who directly interact with the teams of people have a greater role as they are the "Sandwich" between the upper management and the workforce and hence are in a position to follow the policies as well as enforce them.

6.7 RAPID GROWTH STRATEGY

Rapid growth is rarely by accident. Companies that grow rapidly have strategies for growth. Companies must learn how to scale up and extend its business, lengthen its expansion phase, and accumulate and apply new knowledge to products and markets faster than competitors. Young companies often fall into the trap of focusing on short term survival and relying on short periods of 'catch up', whereas larger more mature companies often struggle to identify and successfully grow the key growth elements within their business. No business can afford to leave their growth to chance; they need a consistent plan that incorporates a vision for growth (market and product combinations) with plans for how they will support expansion by marshalling the know-how, resources and organizational structures at the companies.

Acquisition Strategies

Acquisition can be a faster and generally more visible shortcut to growth. It can be argued that growth by acquisition is less risky and easier to finance due to the known quantities and financial performance of the acquired company versus unknowable forecasts of a new product launch or expansion into a new market. However finding the right company takes considerable time and effort, and once found, realizing the gains to be made from the synergies and economies of scale and scope can be elusive. Recent studies by McKinsey & Co showed that about 60% of all acquisitions failed to generate a return in excess of the costs of acquisition. About 17% covered costs and 23% were successful.

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Acquisition strategies fall into four broad categories:

1. **Horizontal:** In essence companies are acquired who do the same thing as you do. Value is created through; risk reduction (through increased diversification of the customer base), geographical spread, reduced cost of capital (due to increased scale reducing risk), and increased market power. However the cost base is increased and there can be significant cultural barriers to successful integration which can generate substantial restructuring costs. When the accountants and consultants Peat Marwick acquired Thomson McLintock in the mid 1980's, within a year, half of the McLintock partners had left and it took over three years to create a unified firm.
2. **Vertical:** This involves acquiring companies further up or down the supply chain. Value can be created by cost reduction, reduced risk and by increased scale reducing cost of capital. Sony acquired Columbia Pictures Entertainment in Hollywood for $3.2 Billion. The rationale was that owning a media provider ensured that Sony would have content for its hardware platforms in the future. This has proved to be very expensive strategies with Sony Pictures losing X million in 2007.
3. **Umbrella Branding:** This involves acquiring businesses that can be leveraged by values inherent in a brand. Value is created by increasing consumer confidence and thus attracting new customers. Perhaps the best example is that of Virgin which has lent its name to everything from credit cards to trains. Tesco and Marks and Spencer have also gone down a similar route to great success.
4. **Diversification:** Famous conglomerates such as General Electric and Berkshire Hathaway tend to have a strong financial rather that strategic or operating visions and focus on rewarding managers for achieving targets. Specific tactical acquisitions may also be undertaken to acquire specific strategic assets such as technology that can be exploited through the existing client base.

Organic Growth Strategies

For many businesses organic growth remains a favoured route to the growth. It is felt to be more stable, the management more in control. It also tends to be slower than acquisition. Organic growth requires a detailed strategic plan that sets out a coherent vision for growth and then must focus on the knowledge, skills and strategic assets within the business. Most importantly it is a plan with an internal focus that should be developed irrespective of competition. Below are three options for organic growth strategies: scaling, duplicating and granulating.

1. **Scaling:** "More of what you're doing". This approach is applicable where the company can demonstrate a product with unique value that addresses a large market, and is easy and cheap to distribute. This strategy requires aggressive

investment in marketing and continuous product development as well as good knowledge of mass marketing and product support.

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2. **Duplication:** "Clone business model in new geographic region". Duplication is ideal for a business where a physical presence is required and/or where distribution needs to be improved. The key is adapting experience in original market to the new regions. Key accomplishments are the ability to package know-how and yet be able to adapt that know-how to new markets: a tension between the benefits of standardization and adaptation. Oracle is a very good example of this strategy. To reach their target market they have developed a network of 20,000 partners in over 100 countries.

3. **Granulation:** "Select and grow one element of the business". This strategy comes into play for larger companies, perhaps when the former strategies have already been employed. The company needs to be large enough to be able to resource research into potential new areas. This strategy requires the company to identify and focus on the aspect of the business that can be the basis of a fast growth strategy. This can be risky as it may not fully leverage the company's knowledge base. Therefore success relies heavily upon evaluation and monitoring (much like an investor would do) and balancing influences from old and new and formal and informal networks. SAP moved from providing an online accounting system (R1) to a multiple product company based on R3 platform which is flexible enough to cater for any client needs. They learnt from their customers what was required.

Starbucks Growth Strategy

Starbucks was founded in 1971 in Seattle, by Gordon Bowker, Jerry Baldwi and Ziv Siegl. By 1982, Starbuck had five retail stores and was selling high quality whole bean and ground coffee products to restaurants and espresso stands in the Seattle area. In the same year, Howard Schultz joined Starbucks to manage retail sales and marketing. After convincing the firm to open a down town Seattle coffee bar in 1984, which was successful, Schultz left Starbucks to open his own coffee bar, II Giornale, which served Starbucks coffee. Schultz acquired Starbucks in 1987, and locations were opened in Chicago and Vancouver. The company published its first mail order catalog in 1988. In 1991, Starbucks became the first U.S. based privately held company to offer stock options to all employees. The company went public in 1992.

Today, Starbucks coffee shops and Kiosks can be found in a variety of shopping centers, office buildings, bookstores, and other outlets. Starbucks is capitalizing on taste changes that predate the company's founding. In the early 1960's, American adults consumed on an average of three cups of coffee each day. Today, consumption has declined to less than two cups, with only half of

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American adults as coffee drinkers. During this time, decaffeinated coffee sales soared. In addition, a new category of intensely loyal coffee drinkers was born. This group of adults consumes "specialty" or "premium" coffees, including regular and decaffeinated versions with a variety of origins and flavors. Sales of specialty coffee have climbed from about $45 million annually to more than $2 billion today, accounting, for about 20 per cent of all coffee sales.

Because Starbucks markets whole beans and coffee beverages, its competition comes from two distinct groups of firms. A number of regional coffee manufacturers distribute premium coffees in local markets, while several large national coffee manufacturers such as Nestle, Proctor & Gamble, and Kraft General Foods market and distribution specialty coffees in supermarkets. Coffee beverages are distributes by restaurants, grocery stores, and coffee retailers. Seattle's Best Coffee is a fierce competitor.

Chairman Howard Schultz projects that Starbucks will grow from its present 6,000 stores to more than 20,000, 75 per cent of which are in the Unites States. The company added 280 intentional locations in 2001 and is targeting an additional 650 stores in Europe by 2004 and 900 locations in Latin America predominantly Mexico by 2005, Starbucks is also moving into China. Retail stores account for more than 80 per cent of revenues, with specialty operations accounting for the remainder.

Case Challenges:

1. What are some of the challenges associated with Starbucks' aggressive growth strategy?
2. Could an unanticipated change in coffee consumption patterns disrupt Starbucks in the same way that it paved the way for the company's growth in the 1980s?
3. What problems might arise from Starbucks' efforts to expand rapidly into nations such as India.

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4. Comment on the pricing strategies of Starbucks.
5. How would you see the competition of Starbucks in India, with players like Costa Coffee, Mc donalds, Barista and Café Coffee day. Draw out a competitive strategy for Starbucks.

Source: *Scribd.com*

6.8 MANAGING RAPID GROWTH STRATEGIES

Rapid growth is part of many successful business cycles. It can happen as a result of a well-executed growth strategy or in response to an unexpected opportunity.

Rapid growth often follows a period of early success, when an organisation has seen only modest profits but is operating healthily. If your business is experiencing a period of rapid growth, you may find that staff, production levels or clients greatly increase over a short period of time.

Managing fast growth boils down to how well you manage your 2 key assets: People and Cash, in developing what it is your company does that is better than anyone else.

People

The importance of having above-average people in a fast-growth business can't be overemphasized: workloads will constantly be expanding and may not be predictable, innovative solutions will have to be implemented quickly. You need people who can think on their feet, adapt well to constant change, and put in the extra hours. You need people who can get excited about being a part of your growing business.

Recruit wisely

A fast-growth business means hiring lots of new people. Get this wrong and you can easily find yourself in deep trouble. Do not under estimate the cost and the time likely to be involved. A possible solution to this problem is to outsource the process to a freelance human resource manager. Let them carry out 90% of the work. You just have to approve the final selection.

Be prepared to let people go

Some people, even those who are committed to your business and work hard, won't be able to adjust to the changes brought about by growth. For example, the person who supervised two people in your warehouse well when you first started out may not be able to manage a team of forty. As the business grows you need to make hard and objective assessments of your key managers.

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Manage the impact of new people

Current employees often feel threatened by the influx of new personnel. Involve your employees in the process of structuring new positions. If a new position will cut into the responsibilities or authority of a current employee, meet with that employee privately to discuss the need for an added position and, emphasize your confidence in his or her ability to continue being a positive asset to the company. Post all job openings internally at the same time, if not before, you place outside advertising. Consider having all employees who may be threatened by the new position participate in the interviewing process. This will make them feel more confident about their position within the organization and less threatened by the new hire.

Money

Fast-growth businesses burn money. Even with good profits, there will almost certainly be times when a growing business will run tight on cash as expenditures occur before related sales are realized. It is essential that you keep close to your bank and communicate regularly. It is also important to identify cash flow funding options such as invoice discounting. If you think that substantial funding will be required from venture capital sources to finance growth then you need to plan early. It can take up to a year from identifying the need getting the cash in the bank. Plan and then plan some more. The faster a business is growing or changing, the more difficult it will be to plan future expenditures or income. Careful planning and constant updating of plans, particularly cash flow projections, is of paramount importance in a fast-growing business.

As your business grows, you will need to find money to pay for more staff, bigger facilities and increased production costs. If your business grows rapidly and the growth is largely unplanned, you´ll risk overtrading by not having enough working capital (cash for day-to-day expenses) to fulfill your expanding orders.

Not having enough working capital in the critical time between investing in growth and realizing the profits is a common problem for businesses experiencing rapid expansion. It can easily ruin a business. However, there are a number of strategies for dealing with short-term cash shortfalls.

Dealing with cash shortages

There are number of immediate ways to fund unexpected cash shortages, including:

- Collecting outstanding debts
- increasing prices
- borrowing money - for example, by refinancing or arranging an overdraft
- negotiating better payment terms with suppliers - for example, delaying payment in exchange for regular or bigger orders

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- negotiating better payment terms with customers - for example, by offering discounts for prompt payment, encouraging automated payments or insisting on deposits first
- identifying any non-core business assets that can be sold for cash
- Using factoring or invoice discounting services - a company lends you money, collects your debts and manages your books for you.

Reducing costs

An equally effective way of increasing your liquidity is to reduce or avoid any unnecessary costs to your business by:

- taking no unnecessary money out of the business while its cash flow is limited
- opting to lease or hire-purchase new premises or machinery rather than buy outright and incur more debt
- delaying any increases in salaries
- reducing overheads - for example, substituting business travel and face-to-face meetings with conference calls.

Monitor and forecast cash flow

To improve your cash flow in the longer term, however, your business will need to better manage its cash flow, particularly if you are planning further expansion.

By monitoring and forecasting your cash inflows and outflows, you can better predict cash flow shortfalls and organise debt finance ahead of time if necessary. With adequate working capital in order, you'll then have more time to manage other aspects of your rapidly expanding business.

In a fast-growth business it is very easy to become excited about rapidly rising sales and lose track of profits. This is especially true when an organization shifts from a very small entrepreneurial organization to a professional organization with many managers. Be aware that during the transitional phases overhead expenses can mount rapidly! If you are trying to attract outside investors, banks, or other lenders, they will want to see good, healthy profit margins. More sophisticated lenders and investors will also pay a lot of attention to the trends in your profit margins. The most challenging part of managing fast growth is getting and integrating the right people and ensuring that costs do not spiral and cash does not run out. The most effective way of dealing with these problems is getting the right help to recruit the right people and detailed financial planning to ensure that you don't run out of cash. One final tip is the use of 'life and death milestones' in company growth. It helps to structure board meetings around these benchmarks that will prompt the timing of bringing on new resources and the marshalling of current resources. Fast growth needs to be planned for, and those plans must reflect the nature and assets of your business as well the nature of the industry you are in. There are lots of options: acquisition can bring quick results but requires careful execution, whereas organic growth requires

a careful marshaling of resources and a keen tactical awareness. Catalyst can help you decide which strategies to employ and help to execute and finance the chosen strategy.

Outgrowing Premises

If your business grows rapidly and without enough planning, there may not be enough space for everyone to work efficiently. With increased orders to fill you may also need to find premises that accommodate bigger production facilities and storage for more raw materials.

There are several things to consider when deciding to move to newer and bigger premises, including whether to buy premises and equipment outright or to lease them. In a period of rapid growth, when working capital may be under pressure, leasing premises or hiring serviced offices gives greater flexibility even though it costs more.

To avoid relocation again too soon, you could search for a business location that gives you the option to expand in the future. You may also be able to negotiate discounted rates with your landlord if you lease another warehouse in the same complex, or a second floor in the same building.

Continuing with good customer service

When businesses are experiencing rapid, uncontrolled growth, one of the first things to fall to the wayside is customer service. It's easy for business owners and staff to feel overwhelmed with increased workloads and changing processes - so much so that they can easily neglect the customers that contributed to the very growth of the business.

It is important to maintain adequate staffing levels to ensure your customers receive the attention and service they demand. You may need to take on new staff to look after your customers or refocus your staffs' attention on the importance of good customer service and what it involves

6.9 PASSION FOR GROWTH

Passion for growth is an organizational mindset that anyone can adopt and learn to work from. It starts with thinking from and operating consistently with that mindset. There are several ingredients that go into a winning business, including a great idea, a great team, great passion, and great leadership. All are important, but great passion can be the fire that helps fuel the success. It can also destroy the business when it is misguided.

Like all fires, passion can spark other flames and become contagious, igniting the passion of investors, business partners, and customers, as well as employees. If left uncontrolled, passion can consume, destroy, and leave a business with an empty

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dream. However, when controlled, directed, and focused, it can boost a business's chance for success. Nonetheless it isn't the only important ingredient. A great business idea alone will not make a business profitable, but a passionate team that has the vision and the ability to execute the idea, even if the idea is only pretty good; can help a company achieve success.

Therefore, in order to be successful in business, you don't have to come up with the most ingenious and creative business concept. However, you must have a solid concept that satisfies a need, and you must be able to properly funnel your passion to execute the plan. The failure to fuel your passion can cause you to skip or dismiss basic business principles. In fact, that's where you see really smart businesspeople with good intentions make fatal errors in judgment.

Most business owners are so busy with the day-to-day management of their company that they don't realize the importance of focusing their business passion to reach their goals more rapidly, more efficiently, and with greater overall success. The following is a list of marketing techniques that are designed to ensure your passion fuels your success, not your demise.

1. **Profile Your Customers:** Who are your most valuable customers? Can you describe them succinctly, in 50 words or less? Profiles are descriptions of your customers' values, beliefs and decision-making processes. While it's important that you understand the products and services that you offer customers, it's even more significant to understand what your customer's value and why so you can fulfill their needs.
2. **Remember to Keep Your Friends Close but Your Enemies (i.e., Competitors) Closer:** Identify several companies that offer competitive or substitute products or services. Discover what their benefits are to potential or current customers of yours. Now think about how you compete against them by comparing your message, value proposition and target audiences with theirs. Based on your assessment, develop at least three strategies that you will use to position yourself effectively against them and are prepared with this knowledge when prospects ask, "What sets you apart from ABC Company?"
3. **Identify Partner Companies That Will Create Win-Win Relationships:** What do you expect from a partner and how can it contribute to your company's growth? Can your potential partners' strengths be leveraged to empower your business? What does your 'must have' list look like in order for your partnership to succeed? Do you each add value to mutual companies while not competing with each other? A strong marketing alliance offers many benefits, including reducing risk, sharing costs and improving time to market, so choose your partners carefully.
4. **Find Out If Perception Is Reality:** How do your customers and prospects perceive you? Branding is the impression you leave through every customer

touch point and involves far more than a nice logo or cool tagline. Everything you do has to incorporate your message, because if you dilute it in any way, you won't be sending a clear definition of the value you provide customers. As the saying goes, "Perception is reality," so in order to ensure that your brand is strong, your message must be clear, focused and on target at every touch point.

5. **Prepare a Strong Elevator Pitch:** Ever find yourself in a room with a key prospect and you couldn't succinctly explain your business to her? Perhaps you rambled on for minutes, never getting to the point, or you froze up. Elevator pitches are designed to help you prepare a very brief pitch explaining clearly to anybody you meet why they would want to continue a dialogue with you at a future point in time. You don't want to tell them everything about your business, just enough to whet their appetite and get them interested in meeting with you again.
6. **Align Marketing Programs to Meet Sales Goals:** Sales and marketing have to work together to support business growth. Even if the same person wears the sales and marketing hats in your company, you must plan your marketing program based on how many sales leads you need to generate and what your cycle time is. For example, if you know you need 1,000 leads over a six-month period of time to attain the number of new customers required for business growth, proactively plan your marketing programs well in advance so they generate the desired results.
7. **Harness Your Passion as a Strategy:** Even the most successful companies have their share of business ups and downs. How will you use your passion to get through the rough patches and continue to grow? Consider your passion for your business. What do you love about it? Why are you starting or did you start it?

Case Study: L'Oréal's Customer- Based Brand Equity (CBBE) Model

Customer-Based Brand Equity is defined as the differential effect that brand knowledge has on consumer response to the marketing of that brand. The **Customer-Based Brand Equity Model** approaches brand equity from the perspective of the consumer – whether this be an individual or an organization. Understanding the needs and wants of consumers and organizations and devising products and campaigns to satisfy them are at the heart of successful marketing.

Brand Salience

Created in France, L'Oréal Paris brings the sophistication and elegance derived from its French heritage to women and men all over the world. L'Oréal Paris

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offers leading-edge products that out-perform the competition to people who care more about the way they look. Our passion for innovation, performance, style and a sense of premium is encapsulated 'because you're worth it' philosophy. Our core values are supported by our strong investment in scientific research and technology.

Over a third of the L'Oréal Group's total turnover in this country is generated by L'Oréal Paris, making it the company's largest division in the UK. Today there are strongly established L'Oréal Paris brands across all of the key areas of the beauty market, including the Plenitude skincare range, Elvive haircare and Studio Line styling products. Other brands include L'Oréal Paris Colour Cosmetics, Elnett, Rcital, Excellence, Fria, Perfect Blonde, Open, Casting and L'Oréal Kids.

Brand Performance

Branding Strategy of L'Oreal has enabled the company to spread its business not only in Europe but also in Asia and Latin America. In the year 2005, the Brand L'Oreal was ranked first among all the cosmetics companies of the world.

L'Oreal Branding Strategy has achieved success throughout the world. Over the years, the company is successfully producing and selling different cosmetic products, haircare and skincare products in almost 150 countries of the world. This has been possible because of the well established brand name and brand image of L'Oreal.

L'Oreal has been successful in generating a worldwide Brand Identity only because of the company's powerful and efficient Branding Strategy. This successful Global Branding Strategy of L'Oreal helped the company to earn significant levels of revenue in the past years. In the year 2005, L'Oreal was valued as a $18.89 billion company. In 2004, total value of the L'Oreal Brand was $5902 million. In 2003, the company recorded a value of $5600 million.

In fact, from the year 1989, the Brand L'Oreal experienced continuous growth. The company recorded double digit growth rate in consecutive years and in the year 2005, it became the largest cosmetic company of the world.

Brand Imagery

L'Oréal has been one of the most reputed brands in the cosmetics field. The brand has made its presence felt in more than 100 countries, thanks to its numerous acquisitions worldwide. With several brands in its kitty, L'Oréal has carved a niche for itself with its unique strategies and stands out from the other cosmetics brands. The L'Oréal group develops several important *communication* campaigns every year that underline the ability and the growth of the group. It is omnipresent across several media channels and the constant presence enables the brand to retain its reigning position in the market despite stiff competition from numerous cosmetic brand. The commercial communication of the group is made at a world

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level. The group proposes the same products and leans on the same advertising campaigns. In that case, visuals are the same, the text identical, the slogan is unchanged, and the ads are only translated with respect to countries. However, inspite of its global presence, the group realized that it could not sell the same product to all its consumers. The group knew how to diversify towards American, Asian or Latin brands.

Brand Judgement

Few of the women in the admiring crowd realized that the trendy "New York" Maybelline brand belongs to French cosmetics giant L'Oreal. In the battle for global beauty markets, $12.4 billion L'Oreal has developed a winning formula: a growing portfolio of international brands that has transformed the French company into the United Nations of beauty. Blink an eye, and L'Oreal has just sold 85 products around the world, from Redken hair care and Ralph Lauren perfumes to Helena Rubinstein cosmetics and Vichy skin care.

Thanks to this strategy, masterminded by L'Oreal Chief Executive Lindsay Owen-Jones, the French company has not only enjoyed a decade of double-digit growth but has pioneered new ground rules for staying on top in a fiercely competitive industry. L'Oreal's net profits rose 12% in 1998, to $768 million, while its stock has soared 900% in the '90s.

L'Oreal's success is the proof that, when done right, global branding can speed growth in mature consumer-products companies even when global markets themselves are shaky. Asia's economy is a mess, Latin America is lottery. Other worldwide marketers, such as Procter & Gamble Co., are suffering partly as a result. But L'Oreal is surging in markets stretching from China to Mexico. Its secret: conveying the allure of different cultures through its many products. Whether it's selling Italian elegance, New York street smarts, or French beauty through its brands, L'Oreal is reaching out to more people across a bigger range of incomes and cultures than just about any other beauty-products company in the world. That sets L'Oreal apart from one-note marketers such as Coca-Cola Co., which has just one brand to sell globally.

L'Oreal's strategy positions it beautifully to profit even further when the middle class begins to grow again in emerging markets. Says Veronique Adam, analyst at J.P. Morgan Securities Inc. in Paris: "L'Oreal is the only real global leader in every segment of the industry."

For Owen-Jones, the trick will be staying ahead in the game as his powerful rivals seek to play the global branding game. From giant P&G to niche players such as Los Angeles-based cosmetics maker Stila, L'Oreal's competitors are hustling to catch up. "L'Oreal want to become more of a global company," says Yoshikuni Miyakawa, a general manager of the cosmetics-marketing division of Shiseido Co., Japan's No. 1 cosmetics company. Already, Shiseido is dominant

at home and now expanding around the world. Meanwhile, the French company is No. 10 in Japan, trailing rivals such as Clinique and Estee Lauder.

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Brand Feelings

It is customers emotional responses and reaction with respect to the brand. "L'Oreal" formed in France, Paris, brings the sophistication and elegance consequent from its French heritage to women and men all over the world. L'Oreal Paris offers leading-edge products that out-perform the competition to people who care more about the way they look. The passion for innovation, performance, style and a sense of premium is sum up in the customers money spending worth and also its philosophy. The core values are supported by strong investment in scientific research and technology.

The L'Oreal Group total turnover by the Paris franchise making it the company's largest division in the world. Today there are strongly established L'Oreal Paris brands across all of the key areas of the beauty market, including the Plnitude skincare range, Elvive hair care and Studio Line styling products. Other brands include L'Oreal Paris Color Cosmetics, Elnett, Rcital, Excellence, Fria, Perfect Blonde, Open, Casting and L'Oreal Kids. The consumer products division in the Europe is dedicated to offering consumers innovative, high technology beauty products from global brands at competitive prices. This is delivered through a global strategy combined with a local understanding of the needs of women and men of all ages.

Brand Resonance

The L'Oreal Group has three international brands named as L'Oreal Paris, Garnier and Maybelline that offer hair care, sun care, hair coloring, skin care and make-up products. All of these available from mass market retail outlets such as supermarkets, drugstores and leading chemists throughout the world. L'Oreal Paris remains the finest mass-market brand. It is offering consumers reachable luxury for skin care through providing its consumers leading-edge products that outshine the competition. "Garnier", on the other hand, Europe's no. 1 brand for natural beauty products in hair care category that offers a complete collection for healthy hair. Similarly, Maybelline offer world class quality for on screen requirements. The L'Oreal Group performance is marvelous due to its distribution channel too. The company focuses on "go native" strategy mean hire local firms in every country to distribute its products. Secondly, "First landing" strategy that is first commercialization is bad thing if the product is not available in a particular place. It has two bad impacts on the company: one would be if product is not at a particular place and company runs there commercials the negative word-of-mouth generate due to the consumers effortless struggle to search the product. The other is the huge advertising budget shatter due to pointless direction. The company by itself monitor, control and evaluate its channel performance

Check Your Progress

Fill in the Blanks

4. ....tools are systems, methods, or guidelines that create or help maintain the ongoing process of improvement.
5. .... means "continuous improvement of processes and functions of an organization through change".
6. According to .... employees should sort out and organize things well.
7. SEIKETSU refers to................ .
8. .... requires a detailed strategic plan that sets out a coherent vision for growth and then must focus on the knowledge, skills and strategic assets within the business.

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especially distributors. The company follow same marketing mix for the whole world with a little bit variation according to the economic conditions of a certain country. L'Oreal is known for its strong control over its promotion, place, price and packaging strategy, which is decided from the headquarters. For these points, only minor product adaptations are made in different countries such as labels' languages. All controls are very frequently checked to comply with prices and selling places of the group marketing strategy.

Source: *Scribd.com*

6.10 SUMMARY

- There are several ways of improving efficiency levels. A well-motivated trained workforce will work harder, take pride in their work, increase production speed and also improve the quality of products and services that are being produced.
- Organizational effectiveness is the concept of how effective an organization is in achieving the outcomes the organization intends to produce.
- The idea of organizational effectiveness is especially important for non-profit organizations as most people who donate money to non-profit organizations and charities are interested in knowing whether the organization is effective in accomplishing its goals.
- Growing the business and sustaining that growth has always been important to business leaders. After a couple of years tightening their belts and driving cost out of the system, leaders are again focusing more on growth. Achieving sustainable growth starts with good business strategies.
- Continuous innovation or improvement is a type of business philosophy that requires a constantly cycling process of review, adaptation, and improvement in all areas of practice.
- "Kaizen" refers to a Japanese word which means "improvement" or "change for the better". Kaizen is defined as a continuous effort by each and every employee (from the CEO to field staff) to ensure improvement of all processes and systems of a particular organization.
- Radical innovation, concerned with exploration of new technology, is fundamentally different from incremental innovation that is concerned with exploitation of existing technology.
- Rapid growth is rarely by accident. Companies that grow rapidly have strategies for growth. Companies must learn how to scale up and extend its business, lengthen its expansion phase, and accumulate and apply new knowledge to products and markets faster than competitors.

NOTES

- Acquisition can be a faster and generally more visible shortcut to growth. It can be argued that growth by acquisition is less risky and easier to finance due to the known quantities and financial performance of the acquired company versus unknowable forecasts of a new product launch or expansion into a new market.
- Organic growth requires a detailed strategic plan that sets out a coherent vision for growth and then must focus on the knowledge, skills and strategic assets within the business.

6.11 KEY TERMS

- **Project Management:** Project Management is the art of managing all the aspects of a project from inception to closure using a scientific and structured methodology.
- **Organizational effectiveness:** Organizational effectiveness is the concept of how effective an organization in achieving the outcomes the organization intends to produce.
- **Kaizen:** Kaizen is defined as a continuous effort by each and every employee (from the CEO to field staff) to ensure improvement of all processes and systems of a particular organization.
- **Radical innovation:** "Radical innovation is a product, process, or service with either unprecedented performance features or familiar features that offer potential for significant improvements in performance and cost."

6.12 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Project Management is the art of managing all the aspects of a project from inception to closure using a scientific and structured methodology. The term project may be used to define any endeavor that is temporary in nature and with a beginning or an end.
2. "Quality management" ensures superior quality products and services. Quality of a product can be measured in terms of performance, reliability and durability.
3. Organizational effectiveness is the concept of how effective an organization is in achieving the outcomes the organization intends to produce.
4. Continuous improvement
5. Kaizen
6. Seiri

7. Standardization
8. Organic growth

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6.13 QUESTIONS AND EXERCISES

Short Answer Questions

1. Define inventory management.
2. What do you mean by supply chain management?
3. Define project management.
4. Explain the meaning of tern Kaizen.
5. Write a short note on incremental vs radical innovation.
6. What are the key issues in managing diversity?
7. What are the acquisition strategies?

Long Answer Questions

1. Discuss the concept of efficiency improvement.
2. Define continuous innovation. What are the key tools of continuous innovation?
3. What are the rapid growth strategies?
4. Discuss the management of rapid growth strategies.
5. Write a detailed note on passion for growth.

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MODEL QUESTION PAPER

DISTANCE EDUCATION

MBA Degree Examination

Fourth Semester

Growth Management

Time: Three hours *Maximum: 100 Marks*

PART A **(5 × 8 = 40 Marks)**

Answer any FIVE Questions

1. Define growth management. Why we need growth management?
2. What are the key factors affecting the decision of choosing the strategic growth choices?
3. What do you mean by disruptive ventures and innovation strategies?
4. What are the key elements of organizing an effective growth strategy?
5. Describe the nature and scope of well thought out implementation plan.
6. What are the key considerations to manage the momentum of business growth?
7. Discuss the nature and significance of managing network and relationship.
8. Continuous innovation or improvement is a type of business philosophy that requires a constantly cycling process of review, adaptation, and improvement in all areas of practice. Elaborate the statement and describe the key techniques of continuous improvement.

PART B **(4 × 15 = 60 Marks)**

Answer any FOUR Questions

9. Firms are a collection of a certain number of resources that provide the means to successfully take advantage of those opportunities and grow. Discuss the statement in respect to growth sinews.
10. Discuss the meaning and nature of evolutionary and continuous growth.
11. What do you mean by a team based environment? What are the key tips for effective team work?
12. Discuss the importance of synchronization efforts to manage the business growth.
13. What are the key differences between product and brand management?
14. Define continuous innovation. What are the key tools of continuous innovation?
15. Discuss the concept of efficiency improvement.

MBA (RETAIL MANAGEMENT)
PAPER- 4.5

GROWTH MANAGEMENT

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DIRECTORATE OF DISTANCE EDUCATION

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